THE

LOEWEN

GROUP

INC.

COMMITTED TO EXTRAORDINARY SERVICE AND COMPASSIONATE CARE.

ANNUAL

REPORT

1998

WHO WE ARE

THE LOEWEN GROUP IS ONE OF THE WORLD'S LARGEST FUNERAL HOME AND CEMETERY OPERATORS, SERVING FAMILIES IN THE UNITED STATES, CANADA AND THE UNITED KINGDOM.

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WHAT WE HOLD TO BE TRUE

The dedicated men and women at the Loewen Group are committed to meeting and surpassing the expectations of the families we serve. In their time of great need, families deserve extraordinary service and compassionate care.

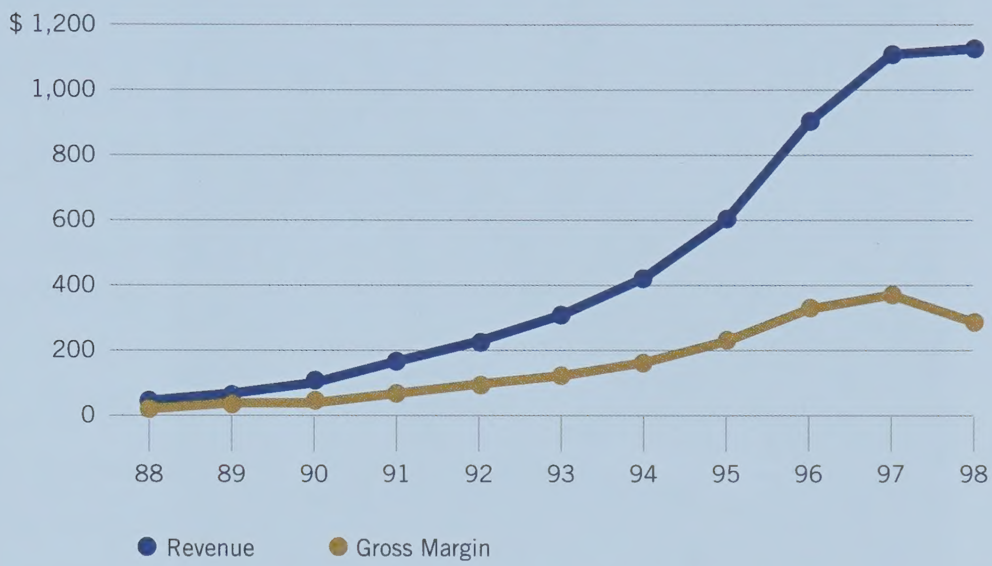
What is changing is how we manage our business.

By focusing on how we manage all aspects of the Company and by investing in our employee teams through better training and a new system of accountability, we will provide families with even better service and care. We believe that if we manage our business effectively, the result will be better returns to our financial stakeholders.

We are all committed to moving forward.

TEN-YEAR REVENUE AND GROSS MARGIN GROWTH

(Millions of U.S. dollars)



HIGHLIGHTS

Years ended December 31, 1998 and 1997

Monetary amounts expressed in thousands of U.S. dollars, except per share statistics

YEAR ENDED DECEMBER 31	1998	1997
Revenue	$ 1,136,234	$ 1,114,099
Net Earnings (Loss)	$ (598,969)	$ 41,810
Earnings (Loss) per Common Share (fully diluted)	$ (8.22)	$ 0.48
Fully Diluted Weighted Average Number of Shares (in thousands)	$ 73,989	$ 67,313
Total Assets	$ 4,673,908	$ 4,790,687
Long-term Debt (including Current Portion)	$ 2,268,014	$ 1,793,934
Shareholders' Equity	$ 905,441	$ 1,517,771
Funeral Homes	1,151	1,070
Funeral Services	163,000	153,000
Cemeteries	550	483
Interments	89,000	75,000

MOVING FORWARD

A LETTER TO OUR STAKEHOLDERS

From left to right:
Robert B. Lundgren,
PRESIDENT AND CHIEF EXECUTIVE OFFICER
John S. Lacey,
CHAIRMAN OF THE BOARD

New leadership is focused on moving the Loewen Group forward but still faces many significant hurdles. The Company's new Chairman of the Board, John S. Lacey, is a respected business leader with a proven track record of helping companies maximize value for shareholders. Robert B. Lundgren, a former Chief Financial Officer of the Company, is the President and Chief Executive Officer.

IT HAS BEEN SAID that there is no resting-place for an enterprise in a competitive economy. These words could not be more appropriate for the challenges confronted by The Loewen Group in 1998.

Prior to mid 1998, the Company was among the most active consolidators in the highly fragmented death care industry. Over the last six years, the Company spent approximately $2.3 billion on the acquisition of over 700 funeral homes and 500 cemeteries. While Loewen acquired many of the industry's finest assets, in hindsight, we underestimated the issues associated with such rapid growth, particularly in the cemetery division.

We continue to face a number of pressing issues in 1999. Our critical challenges include finding solutions for the Company's high leverage and debt maturity schedule, while at the same time, improving the profitability and cash flows of the Company's cemetery operations.

We clearly face challenges, the final outcomes of which remain unclear at this time. However, it is important not to lose sight of the Company's core strengths:

- Loewen holds valuable assets in an attractive industry
- Funeral homes have provided steady growth and cash flow
- There are opportunities to improve on the negative cash flow experience in the cemetery division

The Board's strategy is centered on working with all stakeholders to improve the Company's financial position and with management to increase returns from operations. We also want to reaffirm our belief in the attractive fundamentals of the funeral home and cemetery business. As a result of our shift in strategy away from acquisitions to improving existing operations, Loewen is repositioning for the future. We believe the Company is making progress in resolving its difficulties; however, many obstacles remain unresolved at this time. We understand that the time for promising results is past. Our task is to demonstrate results and we are working diligently toward that goal.

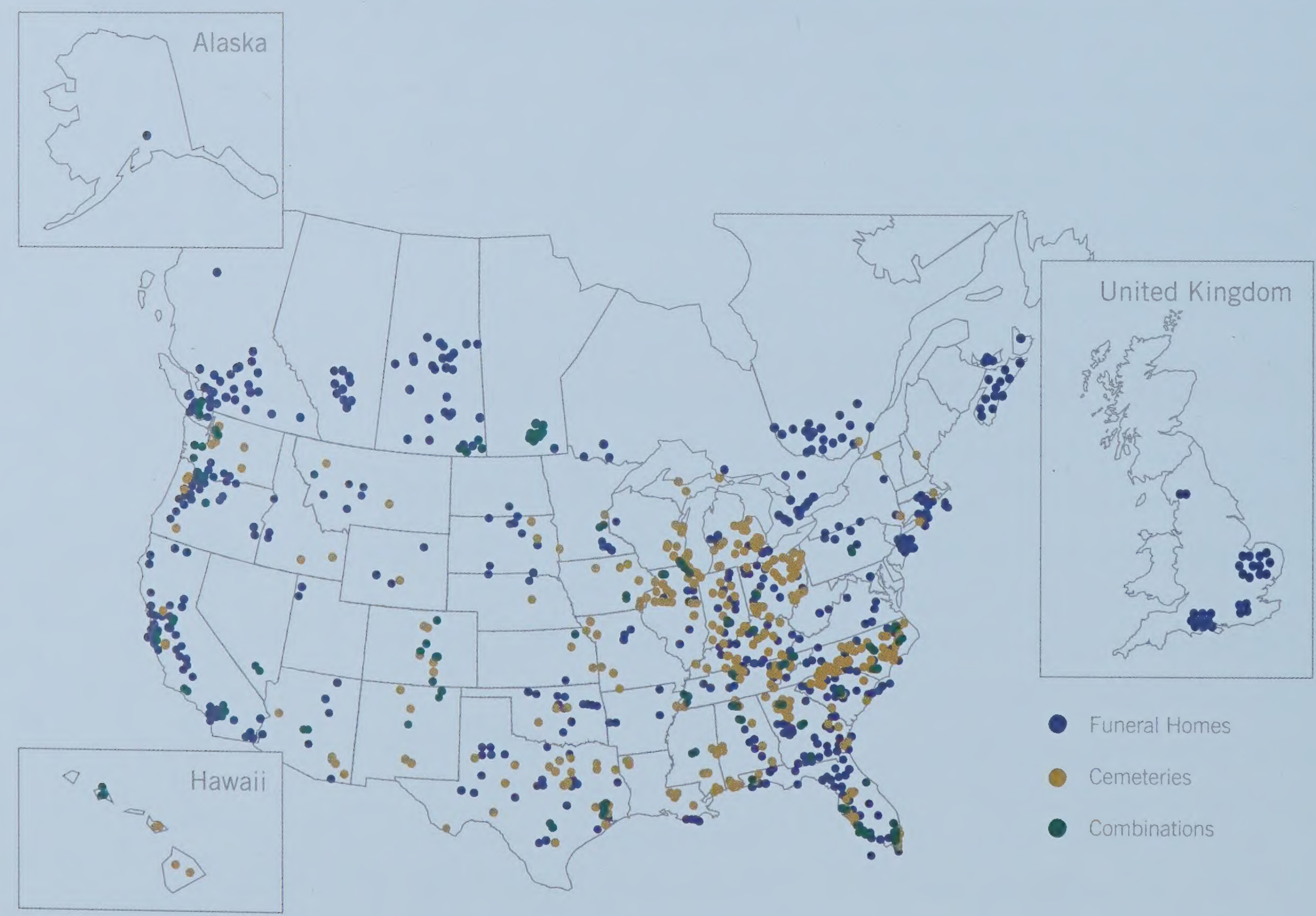
1999 CORPORATE GOALS

- IMPROVE FINANCIAL STABILITY AND CREDIBILITY
- RE-ESTABLISH LOEWEN AS THE FUNERAL HOME OF CHOICE
- ESTABLISH THE REMAINING CEMETERY BUSINESS AS A MORE PROFITABLE DIVISION
- IMPROVE THE COMPANY'S INFORMATION AND ADMINISTRATION SKILLS
- BUILD A CULTURE OF TRUST, RESPONSIVENESS AND TEAMWORK FOCUSED ON IMPROVING VALUE FOR ALL STAKEHOLDERS

NEW LEADERSHIP Late in 1998, management changed the strategic focus from acquisition growth to improving cash flow from existing operations.

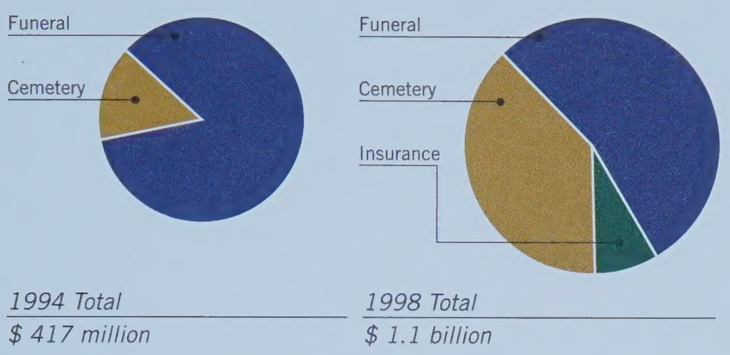
Producing major change in an organization as large as Loewen is all about leadership and teamwork at every level. That's why we made important leadership changes, placing highly qualified managers in charge of our operating divisions and regions. The new management team is united in its sense of urgency about resolving the current situation and refocusing on extraordinary service and compassionate care in all of our locations.

OPERATING LOCATIONS



THE LOEWEN GROUP IS ONE OF THE WORLD'S LARGEST OPERATORS OF FUNERAL HOMES AND CEMETERIES. THE COMPANY'S PROPERTIES ALLOW US TO TAKE ADVANTAGE OF ECONOMIES OF SCALE AND SYNERGIES AMONG FUNERAL HOMES AND CEMETERIES IN A WIDE RANGE OF RURAL, SUBURBAN AND URBAN MARKETS.

REVENUE



CHALLENGES The Loewen Group is facing two sets of distinct challenges – financial and operational.

The Company is highly leveraged and, in 1999, faces significant debt maturities and negative cash flow from operations.

As a first step in dealing with our financial challenges, the Company, on March 31, 1999, entered into revised lending agreements with certain of its lenders.

Also on March 31, 1999, we closed the sale of 124 cemeteries and three funeral homes in eight eastern states for gross proceeds of approximately $193 million.

The Company will be working with its outside advisors and stakeholders to identify and evaluate potential courses of action to deal with the Company's high leverage and debt maturities. However, there is no certainty that these efforts will be successful.

In an effort to enhance our short-term cash position, we have undertaken a number of cost-saving initiatives including consolidating the Philadelphia administration functions into the Burnaby office. In addition, we have suspended dividends on our common shares, preferred shares and MIPS.

Due to the cessation of the Company's acquisition program and ongoing restructuring-related activities, our corporate tax rate will be significantly higher in 1999 than in previous years.

Loewen must overcome several operating challenges as well. Key challenges include the loss of volumes in the funeral home division and the negative cash flow in the cemetery division.

OPERATIONAL GOALS With new leadership in place, we quickly established clear goals for the Company aimed at substantially improving our financial performance. A key priority is to bring our cost structure in line with our revenue base.

As a result of the fixed-cost nature of our business, any sustainable improvement in operating efficiency will have a substantial impact on the Company's cash flow.

As a service organization, we recognize that the customer comes first. Rededicating Loewen to a service-oriented position is our top priority.

Our task now is to overcome our financial challenges and implement operational improvement.

OUTLOOK We are developing a more focused company that can take advantage of its core strengths. We are establishing a more strategic organization, while giving our managers the responsibility, authority and support to deliver improved results. However, we must still find solutions for the Company's high leverage and debt maturity schedule.

Through this difficult period, we appreciate the patience and support shown to us by our shareholders, lenders and suppliers.

As we strive to establish financial stability, we will rely on the spirit and dedication of our employees who continue to demonstrate a remarkable ability to accept and embrace change.

Sincerely,

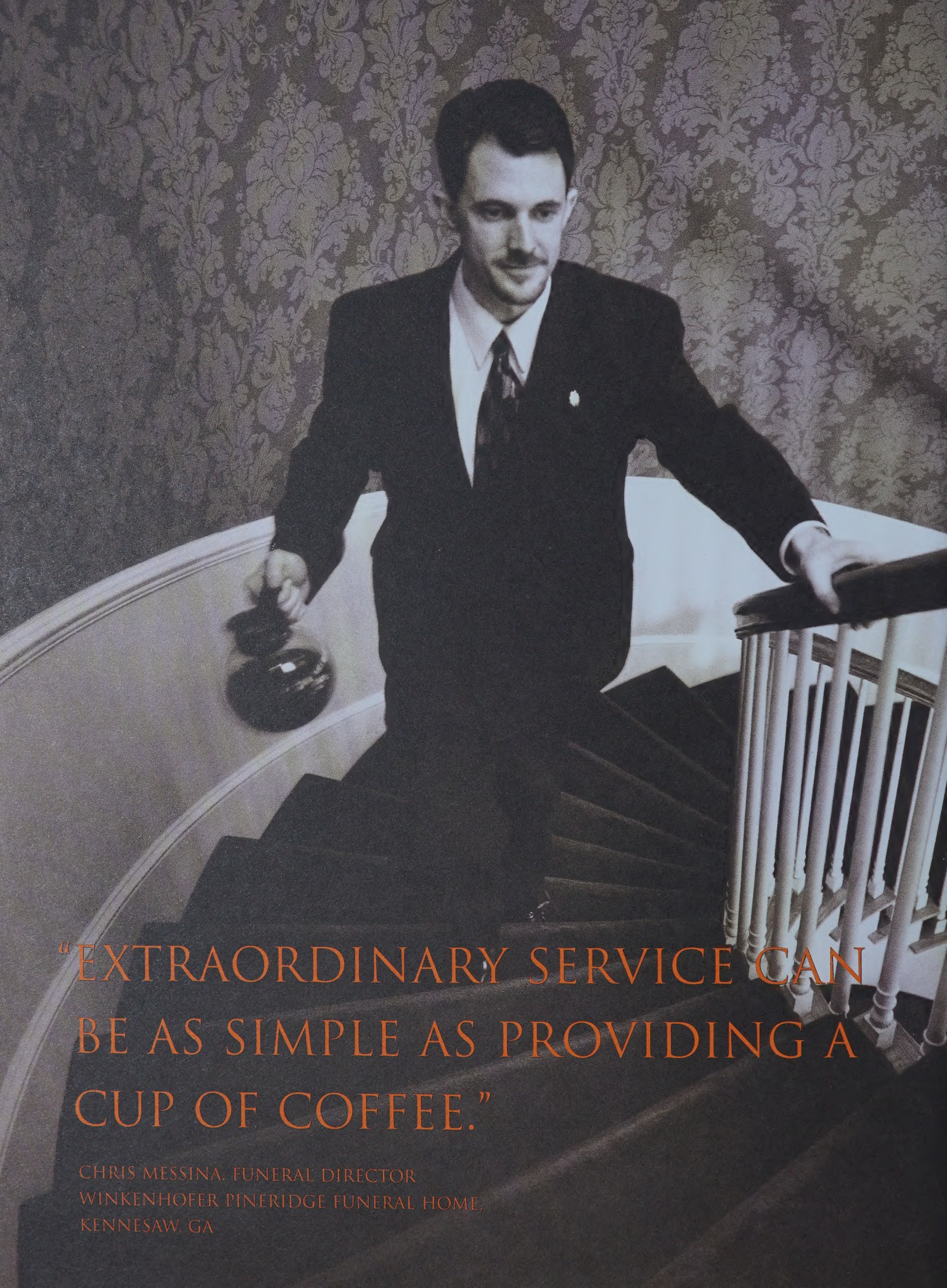
John S. Lacey
CHAIRMAN OF THE BOARD

Robert B. Lundgren
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

APRIL, 1999

EXTRAORDINARY SERVICE,

COMPASSIONATE CARE...


"EXTRAORDINARY SERVICE CAN
BE AS SIMPLE AS PROVIDING A
CUP OF COFFEE."
CHRIS MESSINA, FUNERAL DIRECTOR
WINKENHOFER PINERIDGE FUNERAL HOME,
KENNESAW, GA

BACK TO BASICS IN THE FUNERAL HOME DIVISION

The Company is implementing several actions aimed at regaining market share and stimulating profitable sales growth. The focus for everyone: Extraordinary Service and Compassionate Care at Fair Prices.

In 1998, the funeral home division continued to experience same-store declines in the number of funeral services performed. Industry-wide softness clearly did not help matters. Our strategy is to focus on the core strengths of our funeral home division to regain market share and stimulate profitable sales growth.

Throughout the 1980's and 1990's, Loewen acquired many of the highest quality funeral homes in the U.S. and Canada. These premier locations enjoy attractive market positions and excellent reputations in their communities.

RESPONDING TO MARKET CONDITIONS We are implementing a number of actions to reposition our funeral homes in their markets. One initiative is selective price reductions in order to regain sales momentum in markets where the Company has sustained market share losses. The pricing initiative is being introduced carefully so as to minimally impact cash flow. The first target group of funeral homes has recently implemented a price rollback program and we are closely monitoring results.

Targeted marketing and advertising campaigns are also underway to more effectively position Loewen funeral homes in local markets. We are launching a series of advertisements on topics such as advanced planning, pricing and consolidator ownership that can be used in our many diverse markets. A more sophisticated media-buying program will leverage the Company's purchasing power so overall advertising can be expanded rapidly without a proportionate increase in costs.

"When we serve a family we want them to feel like they are a part of our family," explains Chris Messina, Funeral Director at Winkenhofer Pineridge. "It's the little things that show we're here to help. It's the quality of service that makes our funeral home stand out in the community."

CHRIS MESSINA
FUNERAL DIRECTOR,
WINKENHOFER PINERIDGE
FUNERAL HOME,
KENNESAW, GA

ACCOUNTABILITY AT THE LOCAL LEVEL One of our most important initiatives is aimed at improving the performance of the funeral home division by providing greater training and autonomy to field staff. In addition, the local managers of our funeral homes are actively involved in the budgeting process, and now manage their businesses to achieve operating earnings targets.

Today, location managers are better empowered to respond to competitive trends in their markets. Whether through selective price reductions or increased advertising, location managers have more authority to make decisions about how to achieve budget objectives. A company-wide, systematic, professional training program is helping to ensure that our field staff are setting the industry standard in terms of service quality, merchandising, personnel management and financial performance.

To achieve our service quality, market share growth and profit improvement goals, we have established a results-driven incentive plan for the funeral home division. The reward system, tied largely to achieving budgeted operating earnings, is designed to motivate all of our employees to achieve and surpass their individual goals.

The success of our funeral homes will be directly linked to the quality of service provided. The new initiatives being introduced will encourage our staff to reinforce the extraordinary service and compassionate care that have been the hallmark of our funeral homes.

EACH FUNERAL WE ARRANGE IS AN IMPORTANT CELEBRATION OF A LOVED ONE'S LIFE. FAMILIES COUNT ON US TO DEAL WITH DIFFICULT ISSUES ON THEIR BEHALF".
GEORGE AMATO
[illegible] VICE-PRESIDENT, EASTERN [illegible]

By prearranging funerals, families can be confident all arrangements are taken care of and that important decisions have already been made.

"The public is just discovering the enduring value of prearranging their funeral. Our advance planning team is on the front line of this trend, which we see as the key to securing future market share."

JEFF CASHNER
SENIOR VICE-PRESIDENT,
FUNERAL HOME AND
CEMETERY OPERATIONS

CONSUMER AWARENESS IS
AN IMPORTANT PART OF
EXTRAORDINARY SERVICE.

"BY TAKING TIME TO UNDERSTAND A FAMILY'S NEEDS, WE CAN DO A MUCH BETTER JOB AT MEETING THOSE NEEDS."

[illegible] CEMETERY MANAGER,
[illegible] MEMORIAL PARK,
SURREY, BC

UNLOCKING THE POTENTIAL OF OUR CEMETERIES

The Company is working to unlock the potential of our cemeteries by refocusing the business on maximizing cash flow.

From 1995 through 1998, Loewen embarked on an aggressive cemetery acquisition program. With the benefit of hindsight, we now understand that we underestimated certain issues associated with such rapid growth. Our rapid acquisition pace prevented us from realizing the economies of scale as we had with our funeral home acquisitions, and we didn't fully capitalize on the pre-need sales potential of the acquired properties.

SHIFTING THE STRATEGY Despite the financial issues resulting from the cemetery division build-up, the division is a strategic part of the Company with real cash flow generating potential. The first priority is to refocus the cemetery business by shifting the sales strategy from maximizing revenue to maximizing cash flow. To achieve this crucial objective, we are taking a number of important steps that include:

- focusing cemetery management compensation on cash-flow targets similar to those in the funeral home division
- improving our consumer finance terms as well as our collection department procedures and personnel
- installing a new administrative system so we can improve efficiency and reduce costs

"The personal approach has been successful for me – taking the time to find out who people are, their background and their approach to funerals," says Bob Harder who has worked on both the funeral home side and cemetery side of Victory Memorial Park over the past 12 years. "We offer a wide range of memorial products so families can find the perfect way to commemorate their loved one. It's a great feeling to know you've met their needs."

BOB HARDER
CEMETERY MANAGER,
VICTORY MEMORIAL PARK,
SURREY, BC

CUSTOMIZED BRONZE MARKERS ARE ONE WAY LOEWEN GROUP CEMETERIES CAN HELP FAMILIES CELEBRATE THE LIVES OF THEIR LOVED ONES.

- reorganizing managers on regional and local levels to ensure that the most highly qualified individuals are in charge
- upgrading our sales recruitment and training efforts

TRANSFORMING THE SALES FORCE To make the cemetery sales force more productive and to help maximize cash flow, we are redesigning our cemetery sales methods. For example, the sales force will be motivated to generate more profitable sales, obtain higher down payments and sell instalment contracts with substantially shorter terms.

In addition the Company recently introduced training conferences in each of its cemetery regions. Our most successful professionals are leading workshops and seminars to educate all of the division's employees on policies, procedures and sales skills.

The transformation will not happen overnight, but through improved training, more effective recruitment and an expanded sales force, we expect cemetery operating earnings to steadily improve.

"CEMETERY OPERATIONS HAVE BEEN OUR BIGGEST CHALLENGE. HOWEVER, WE ARE COMMITTED TO SUBSTANTIAL IMPROVEMENT GOING FORWARD."

PAUL WAGLER
EXECUTIVE VICE-PRESIDENT
& CHIEF OPERATING OFFICER

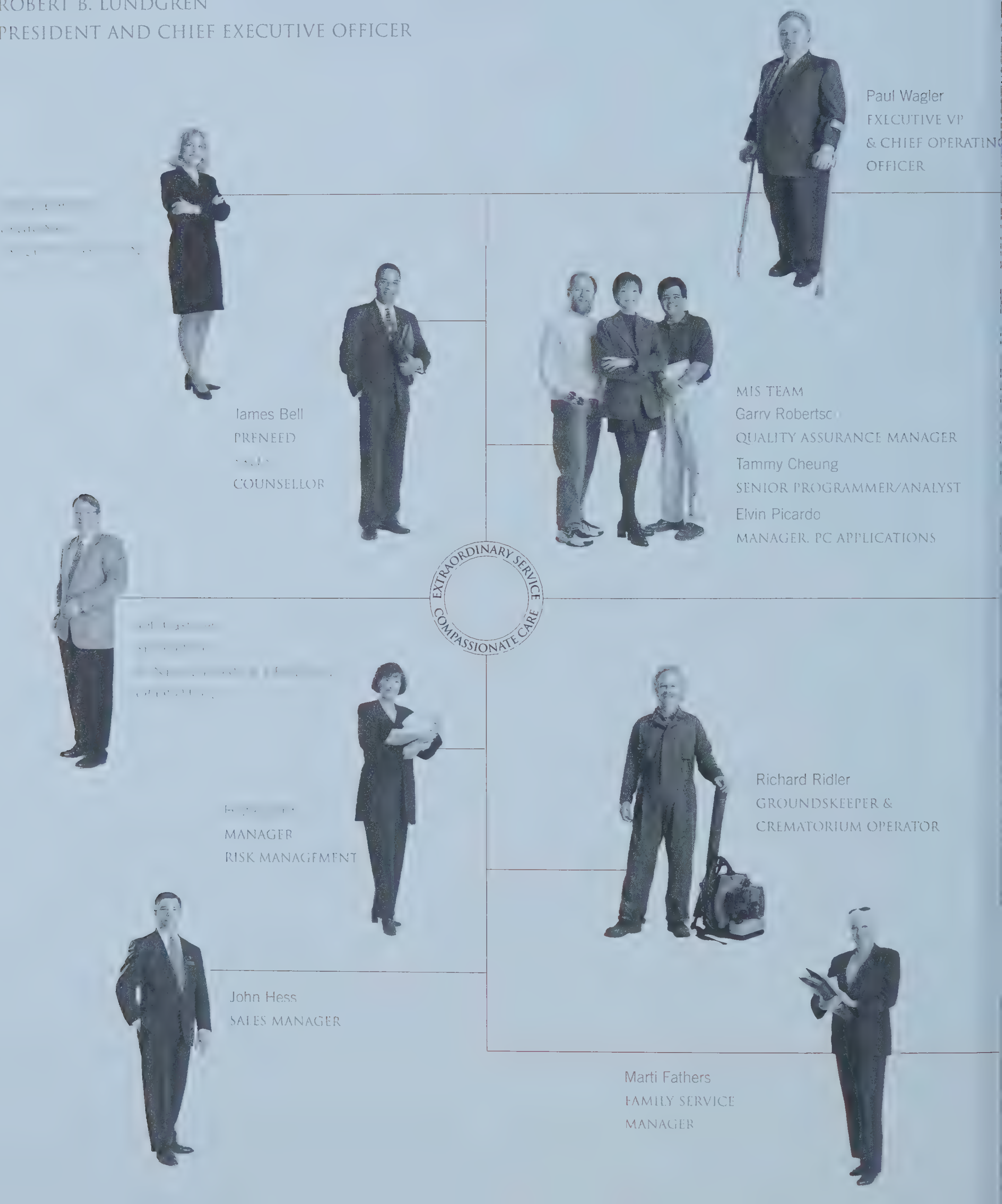
"Activity produces results. We use a system in the Southern Region that focuses on high-value activity and measures results, so every cemetery sales person is accountable for improved performance."

MARC BLUESTEIN
REGIONAL VICE-PRESIDENT
SOUTHERN REGION
CEMETERY DIVISION

"IN A SERVICE ORGANIZATION, TRAINING IS THE KEY TO SALES EXCELLENCE."

"IF WE DEVELOP A SERVICE MENTALITY AND A 'PEOPLE FIRST' VISION, I BELIEVE WE WILL ESTABLISH THE LONG-TERM FOUNDATIONS WE NEED FOR STABILITY AND GROWTH."

ROBERT B. LUNDGREN
PRESIDENT AND CHIEF EXECUTIVE OFFICER



BUILDING A NEW CORPORATE CULTURE

The Loewen Group is much more than the sum of its assets. In the final analysis, it is all about people. The Company is introducing initiatives to better support its people and foster team-oriented relationships, dignity and mutual respect.

Harry Pattar
SUPERVISOR, OFFICE SERVICES

Our objective is to see Loewen noted for the character and professionalism of its employees. To reach this goal, we are establishing solid foundations including:

- corporate discipline and appropriate authority at all levels of the organization
- integrity, character and mutual respect for people
- sound strategic thinking and proper evaluation of all alternatives
- performance-based evaluation and incentive processes
- deploying people in their areas of highest skill and talent

Guy Heywood
VP & TREASURER

Improving internal communications is a top priority. Through a variety of communication methods, we are keeping staff informed during this crucial period of transformation.

As we move forward, open, honest communication will help us execute our business plan more effectively. With these foundational principles re-established we are intent on building a re-energized, highly motivated corporate culture.

John Duncan
REGIONAL MANAGER

COMMISSIONS TEAM
Gina Chahine, Erica Knutsen, Neville Lok

Kim Decker
CORPORATE COMMUNICATIONS COORDINATOR

FINANCIAL REVIEW

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RISKS AND UNCERTAINTIES

BASIS OF PRESENTATION The Consolidated Financial Statements have been prepared on a going concern basis in accordance with Canadian GAAP. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

There is substantial doubt about the appropriateness of the use of the going concern assumption because in 1998 the Company has experienced both a significant net loss and negative cash flow. As a result, the Company obtained waivers and amendments to certain of its debt agreements. There is also uncertainty as to the Company's ability to refinance the PATS Senior Notes which may be redeemed on October 1, 1999 and which require refinancing by September 15, 1999 under the terms of amended credit agreements. These uncertainties and the strategies necessary to mitigate the doubt about the validity of the going concern assumption are discussed below. There is no certainty that these and other strategies will be sufficient to permit the Company to continue, or that the Company will be able to refinance the PATS Senior Notes on terms satisfactory to the lenders under the Credit Agreements by September 15, 1999. In the event that such actions and strategies are not successful, either the Company or its creditors may initiate proceedings for the liquidation or reorganization of the Company under Canadian or U.S. bankruptcy laws.

The Consolidated Financial Statements do not reflect adjustments that would be necessary if the "going concern" assumption were not appropriate because management expects that the actions already taken or planned, some of which are described below, will mitigate the adverse conditions and events that raise doubts about the validity of the "going concern" assumption used in preparing these financial statements. If the "going concern" basis was not appropriate for the Consolidated Financial Statements, then significant adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

OPERATIONS The Company reported a loss from operations in 1998 of $264.0 million after recording a charge for asset impairment of $333.9 million. Over the past three years, the Company's strategic growth plan had emphasized cemetery acquisitions, as compared to the historical emphasis on funeral home acquisitions. Acquisitions and the integration of cemeteries has required significant cash due to the pre-need sales of cemetery interment rights, products and services and related interest costs on debt incurred. The rapid growth in cemetery pre-need sales and the related long-term receivables have contributed to the negative cash flow from operations. Cemetery pre-need sales are typically structured with low initial cash payments by the customers that do not offset the cash costs of establishing and supporting a growing pre-need sales program, including the payment of certain sales commissions. The Company expects to continue to incur negative cash flow from cemetery operations until it is able to satisfactorily implement various strategies to generate positive cash flow.

During the second half of 1998 the Company curtailed its acquisition program and undertook a number of steps to improve profitability and cash flow from operations:

- In June 1998, the Company began the consolidation of many operational and administrative functions in the Trevose office to the Burnaby head office. In January 1999, the Company announced the further consolidation of most of the remaining functions, cemetery accounting, trust administration and information systems, leaving only the receivable collections function remaining in Trevose. This consolidation is expected to reduce costs and improve information and control to support decision making;
- In July 1998, the Board of Directors engaged the services of financial advisors and investment bankers and announced its intention to consider all available options to maximize shareholder value, including opportunities such as strategic partnerships, combinations, dispositions and capital investments in the Company;

- In September 1998, the Board of Directors created a Special Committee of independent directors to oversee and supervise the Company's efforts to maximize shareholder value. In October 1998, the Board of Directors appointed a new President and Chief Executive Officer. In December 1998, three new directors recommended by significant shareholders were appointed to the Board of Directors. In January 1999, the Board of Directors elected a newly appointed director as Chairman. Through actions taken on March 30, 1999 and April 12, 1999, the Board of Directors was reduced from 14 to seven members;
- The Company has reorganized its operational management to enhance funeral and cemetery operations, reduce regional management overhead and achieve greater accountability for cemetery profitability and cash flow;
- Management reviewed its cemetery pre-need sales strategy and, to improve cash flow, began implementing changes to the terms and conditions of cemetery pre-need sales. These changes include: setting minimum contract terms; adjusting sales force compensation for sales with certain terms; and eliminating certain types of contracts in jurisdictions with poor cash flow characteristics after trusting obligations are considered; and
- The Company is implementing several new information systems, principally in cemeteries, to ensure better information is available to monitor and evaluate key variables.

FINANCING As a result of expected negative cash flow from operations during 1999, scheduled debt maturities in 1999 and its current financial position, on March 31, 1999 the Company:

- Sold 124 cemeteries and three funeral homes for gross proceeds of $193 million, of which $126.5 million was used to reduce indebtedness; and
- Completed negotiations with the lenders under the Credit Agreements resulting in revised lending agreements effective March 31, 1999, including waivers of certain financial covenants as of December 31, 1998. As a result, the Company has not had an event of default of the covenants under the Credit Agreements. The revised lending agreements:
  - Provide for no further borrowings and reduce the bank credit agreement, including letters of credit, from $600 million to $294 million after application of a portion of the net proceeds from the Company's first major asset sale;
  - Increase effective interest rates or applicable margins;
  - Amend certain existing financial covenants and add other financial covenants;
  - Require refinancing the PATS Senior Notes on terms satisfactory to the lenders party to the Credit Agreements by September 15, 1999;
  - Require the appointment of a financial advisor on behalf of lenders and increased reporting and monitoring;
  - Require the suspension of all Common share, Preferred share and MIPS dividend payments;
  - Restrict further acquisitions and equity repurchases;
  - Limit capital expenditures and expenditures for development of cemetery land to $60 million for 1999; and
  - Permit additional asset sales subject to certain terms and conditions.

The Company's indebtedness includes the PATS Senior Notes which are held by a trust for the benefit of the holders of the pass-through asset trust securities due October 1, 1999. Notwithstanding the obligation to refinance the PATS Senior Notes on terms satisfactory to the lenders party to the Credit Agreements by September 15, 1999, the trust has a put option that entitles the trust to redeem the PATS Senior Notes on October 1, 1999 to fund the repayment of the pass-through asset trust securities under circumstances where no funding is tendered pursuant to a competitive bidding process. The Company does not expect to have sufficient funds to redeem these notes without further asset

sales or proceeds from debt or equity issues. The Company is of the opinion that this facility has a prospect of being refinanced; however, there is no certainty of such financing as it will depend primarily on financial market conditions and the Company's credit rating at that time.

The debt relating to the Credit Agreements and the PATS Senior Notes has been classified as current liabilities. The Series 1 to 7 Senior Notes have been classified as non-current liabilities but have cross-default clauses that could accelerate payment if covenants in the Credit Agreements and the PATS Senior Notes are not met and the lenders thereunder accelerate payment under those agreements.

The Company is continuing to review its operations in order to identify additional strategies to those identified above, including further asset sales, that are designed to generate cash flow, improve the Company's financial position, and enable the discharge of the Company's obligations.

RESULTS OF OPERATION

Detailed below are the Company's operating results for the years ended December 31, 1998, 1997 and 1996, expressed in dollar amounts as well as relevant percentages. The operating results are presented as a percentage of revenue except income taxes, which are presented as a percentage of earnings (loss) before income taxes and equity and other earnings of associated companies.

The Company's operations are comprised of three businesses: funeral homes, cemeteries and insurance. See Note 22 to the Consolidated Financial Statements in Item 8 of this Form 10-K.

	(IN MILLIONS)			(PERCENTAGES)		
YEAR ENDED DECEMBER 31	1998	1997	1996	1998	1997	1996
Revenue						
Funeral	$ 631.2	$ 602.1	$549.8	55.6	54.0	60.5
Cemetery	408.5	422.0	286.7	36.0	37.9	31.6
Insurance	96.5	90.0	71.9	8.4	8.1	7.9
Total	$1,136.2	$1,114.1	$908.4	100.0	100.0	100.0
Gross margin						
Funeral	$ 223.9	$ 227.9	$222.9	35.5	37.9	40.5
Cemetery	51.3	119.0	88.9	12.6	28.2	31.0
Insurance	16.5	16.7	17.2	17.1	18.5	23.9
Total	291.7	363.6	329.0	25.7	32.6	36.2
Expenses						
General and administrative	133.3	112.7	71.2	11.7	10.1	7.8
Depreciation and amortization	88.5	65.4	53.1	7.8	5.9	5.9
Asset impairment	333.9	—	—	29.4	—	—
Restructuring costs	—	33.4	—	—	3.0	—
Earnings (loss) from operations	(264.0)	152.1	204.7	(23.2)	13.6	22.5
Interest on long-term debt	182.3	132.2	93.0	16.0	11.9	10.2
Investment impairment and contingent loss	315.2	—	—	27.7	—	—
Loss on early extinguishment of debt	—	7.7	—	—	0.7	—
Gain on sale of investment	—	(24.1)	—	—	(2.2)	—
Finance and other costs related to hostile takeover proposal	—	—	18.7	—	—	2.1
Dividends on preferred securities of subsidiary	7.1	7.1	7.1	0.6	0.6	0.8
Income taxes	(164.5)	0.8	23.5	n/a	1.8	26.2
	(604.1)	28.4	62.4	(53.2)	2.6	6.9
Equity and other earnings of associated companies	5.1	13.4	3.6	0.5	1.2	0.4
Net earnings (loss)	$ (599.0)	$ 41.8	$ 66.0	(52.7)	3.8	7.3

YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997 Consolidated revenue increased 2.0% to $1.136 billion in the year ended December 31, 1998 from $1.114 billion in 1997, due to acquisitions. Consolidated gross margin decreased 19.8% to $291.7 million in 1998 from $363.6 million in 1997, primarily due to volume declines in funeral and cemetery businesses and increases in the allowance for funeral accounts receivable and pre-need cemetery accounts receivable as a result of worsening trends in collections experience. As a percentage of revenue, consolidated gross margin decreased to 25.7% in 1998 from 32.6% in 1997, principally due to tne declines in funeral, cemetery and insurance gross margins, as discussed below.

Funeral revenue increased 4.8% to $631.2 million in 1998 compared to $602.1 million in 1997, due to revenue from acquisitions. The number of funeral services performed at locations in operation for all of 1997 and 1998 ("Established Locations") declined by 5.2% from 1997 to 1998. This decline, combined with slightly lower average revenue per funeral service, had an unfavorable impact on revenue. Funeral gross margin as a percentage of funeral revenue for Established Locations decreased to 37.2% in 1998 from 38.0% in 1997, as the decrease in revenue was partially offset by a 5.2% decrease in costs, resulting from the decline in the number of funeral services performed and the fixed nature of operating costs. As a result of the gross margin decrease for Established Locations, together with the lower margins of recently acquired funeral locations, overall funeral gross margin as a percentage of funeral revenue decreased to 35.5% in 1998 from 37.9% in 1997. Management expects funeral gross margin to be approximately 35% to 40% in 1999.

Cemetery revenue decreased 3.2% to $408.5 million in 1998 compared to $422.0 million in 1997, and cemetery gross margin decreased to 12.6% in 1998 from 28.2% in 1997, both primarily due to a decline in pre-need sales and an increase in the estimate of the allowance for pre-need accounts receivable to reflect worsening trends in collections experience. Similarly, for Established Locations, cemetery gross margin decreased to 7.1% in 1998 from 27.5% in 1997. Management expects cemetery gross margin to be approximately 25% to 30% in 1999.

Insurance revenue increased to $96.5 million for 1998 from $90.0 million in 1997. The increase in revenues was primarily due to the continuing effort to expand the sale of pre-need funeral insurance through Company-owned funeral homes, partially offset by reduced revenues as a result of the sale of First Capital Life Insurance Company of Louisiana ("First Capital"). On July 27, 1998, the Company entered into an agreement to sell First Capital for cash proceeds of approximately $24 million and a pre-tax gain of approximately $6.8 million included in general and administrative expenses (see below). The sale was consummated on December 22, 1998. First Capital specialized in the sale of pre-need funeral insurance sold through non-Company funeral homes. First Capital had tangible assets of approximately $90 million and annual revenues of approximately $24 million. Insurance gross margin decreased to 17.1% for 1998 from 18.5% in 1997, primarily due to the loss of First Capital business and the implementation of the Company's insurance products in and expansion into several states.

The Company's gross pre-arranged funeral sales decreased to approximately $258 million in 1998 from approximately $267 million in 1997. Pre-arranged funeral services comprised approximately 23% of the funeral services performed by the Company in 1998 and approximately 21% of the funeral services performed by the Company in 1997. The Company estimates that it had a backlog of approximately $1.1 billion in pre-need funeral sales as of December 31, 1998. Approximately 75% of the Company's cemetery revenue in 1998 was generated from pre-need sales compared with 77% in 1997. Note 2 to the 1998 Consolidated Financial Statements provides information regarding the accounting treatment of pre-arranged funeral services and pre-need cemetery sales.

General and administrative expenses, as a percentage of revenue, increased to 11.7% in 1998 from 10.1% in 1997. For the year ended December 31, 1998, general and administrative expenses increased $20.6 million to $133.3 million from $112.7 million in 1997. The increase in general and administrative expenses in 1998 is a result of the write off of approximately $14.9 million of previously capitalized costs, primarily for acquisitions and planned construction projects that are no longer being pursued and approximately $2.0 million of costs associated with the Company's initiative to evaluate strategic alternatives to maximize shareholder value, including the transition of the Trevose office, partially offset by the pre-tax gain of approximately $6.8 million from the sale of First Capital (see above).

Without reflecting the impact of these items, general and administrative expenses for 1998 as a percentage of revenue, was 10.8% as compared to 7.9% in 1997, after the exclusion of approximately $24.8 million of charges for litigation and various asset write downs in 1997.

Depreciation and amortization expenses, as a percentage of revenue, increased to 7.8%, compared to 5.9% in 1997, primarily due to the fixed cost component effect of lower than expected revenues, accelerated depreciation and amortization of assets based on a reassessment of useful lives and the write off of certain assets.

Interest expense on long-term debt increased by $50.1 million in 1998, primarily as a result of additional borrowings by the Company to finance its previous acquisition programs and working capital needs. In 1998, the Company wrote off as interest expense approximately $15.0 million of deferred debt issue costs related to its bank credit agreements.

Due to severe liquidity constraints and the need to generate cash in late 1998, the Company identified certain properties which it would consider selling at their fair value.

On March 31, 1999 one group of properties consisting of 124 cemeteries and three funeral homes was sold for gross proceeds of $193 million (see Notes 1 and 24). Two smaller groups of properties are considered as probable for sale.

The Company has recorded a pre-tax impairment loss of $333.9 million in 1998 on individual properties contained in the above groups. In calculating the impairment loss, the Company has used estimated cash flow from operations and estimated cash proceeds on the sale of these properties. The impairment loss has reduced cemetery property by $319.3 million, property and equipment by $4.0 million and names and reputations by $10.6 million. The impairment loss is based on management estimates and as a result, actual results could differ significantly from these estimates.

Although the Company intends to consummate additional asset sales, it is not committed to sell and has not identified any other properties for which sale is probable, other than noted above. As a result, no additional impairment losses have been recognized since future sales of other properties are not determinable. Should additional properties be sold, losses, if any, could be small or significant depending upon the type of property, location, cash flow and prevailing market conditions.

The Company has recorded in 1998 an investment impairment and contingent loss of $315.2 million relating to its investments in Rose Hills Holding Corp. ("Rose Hills") and Prime Succession Holdings, Inc. ("Prime"). Prior to the fourth quarter of 1998, the Company had evaluated the exercise of its call options related to the majority owner's investment in Rose Hills and Prime as likely, and the exercise of the majority owner's put options as unlikely. Due to liquidity concerns of the Company, the performance of Rose Hills and Prime, and the reduced market values for the Company's and other industry participants' stock, the Company determined the exercise of the calls to be unlikely and the exercise of the puts to be likely. Accordingly, the Company determined that its investments suffered a decline in value that is other than temporary and has written down its investment in Rose Hills and Prime based on an assumed distribution of Rose Hill and Prime's shareholders' equity at December 31, 1998, taking into account the majority owner's return under the put. In addition, the Company has estimated the expected put option price on the sixth anniversary, the first date the put options become exercisable by the majority owner, based on the Company's best estimate of earnings before interest, taxes, depreciation and amortization at that time and the relevant formula in the put/call agreements. The Company has accrued contingent losses based upon the difference between the estimated option prices and the Company's estimates of the fair value of the majority owner's interest which is based in part on current market conditions. Such amount could change based on changes in the estimated future value of the businesses. A net liability (see Notes 5 and 21) has been recorded reflecting an accrual of the expected losses on the options reduced by the remaining carrying value of the investments.

In 1998, the Company adopted the Canadian Institute of Chartered Accountants Handbook Section 3465, "Income Taxes." The provisions of this standard were applied retroactively to January 1, 1993 which conforms to the effective date that the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," for its financial statement amounts presented under United States GAAP. Implementation of the standard resulted in a $23.9 million cumulative effect decrease of retained earnings as of January 1, 1996.

The income tax benefit of $164.5 million and an effective tax rate of (21.5%) compares to an income tax expense of $0.8 million and an effective tax rate of 1.8% for 1997. In 1998 the Company established valuation allowances against future potential tax deductions associated with the following items in the amounts indicated: 1) provision for losses on the Company's existing investment in Rose Hills and Prime and the establishment of a liability regarding the Company's put obligation in the amount of $120.0 million; 2) certain state, provincial, and federal net operating loss carryovers in the amount of $50.1 million; and 3) certain other tax benefits in the amount of $7.5 million. Additional information regarding the change in effective tax rate in 1998 compared to 1997 is provided in Note 19 to the Company's Consolidated Financial Statements.

Historically, the Company's financing structures have allowed it to achieve an effective tax rate well below the Canadian statutory rate of 45%. These structures are not expected to produce similar benefits in the future due to uncertainty as to when, if ever, the tax benefit of deducting the Company's future interest expense will be realized. As a result, the Company expects that its income taxes for 1999 and beyond will likely exceed the Canadian statutory rate.

In addition, the tax rate for 1999 and beyond may be affected disproportionately by asset dispositions. In addition to generating a gain or loss for tax purposes, the disposition of certain locations may require the Company to take a valuation allowance against certain tax assets that were taken into account in determining the net amount of the Company's liability for future income taxes recorded on its balance sheet at December 31, 1998. If this occurs, the resulting change in the valuation allowance would be treated as an additional income tax expense in the year such dispositions become probable.

Equity and other earnings of associated companies were $5.1 million during 1998, down from $13.4 million in 1997, primarily due to the performance of the Prime and Rose Hills investments as further described in Note 5 to the Company's Consolidated Financial Statements.

The Company had a net loss of $599.0 million in 1998 compared to net income of $41.8 million in 1997. Fully diluted loss per share was $8.22 per share compared to earnings of $0.48 per share in 1997. The net loss and loss per share for 1998 were primarily due to the decrease in operating earnings and the charges taken for asset impairment primarily related to cemetery disposals and the impairment of the Company's equity investments and accrual for contingent loss in Rose Hills and Prime.

The Company has and plans to further implement strategies to improve profitability in its businesses and to reduce corporate costs. Management believes that costs in 1998 included many items that will not occur in 1999.

The Company's statement of cash flows for the year ended December 31, 1998 reflects cash applied to operations of approximately $124.5 million, primarily as a result of pre-need cemetery programs.

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996 Consolidated revenue increased 22.6% to $1.1 billion in the year ended December 31, 1997 from $908.4 million in 1996. Consolidated gross margin increased 10.5% to $363.6 million in 1997 from $329.0 million in 1996. As a percentage of revenue, consolidated gross margin percentage decreased to 32.6% in 1997 from 36.2% in 1996, due to the increased proportion of cemetery revenue with associated lower margins, and declines in the gross margin percentages of the Company's funeral home, cemetery and insurance businesses. Charges relating to the implementation of certain strategic initiatives and other charges contributed to reduced margins in 1997 compared to 1996.

Funeral revenue increased 9.5% to $602.1 million in 1997 compared to $549.8 million in 1996, due to acquisitions. Funeral revenue for 1996 includes $4.4 million of commission income received by the Company due to certain non-recurring conversions of trust investments to insurance investments. Excluding the factors described below, 1997 funeral gross margin at locations in operation for all of 1996 and 1997 ("Established Locations") was comparable with the prior year. The number of funeral services performed at Established Locations declined by 3.2% from 1996 to 1997, substantially consistent with other consolidators in the industry; however, the effect on revenue was partially offset by a slightly higher average revenue per funeral service of approximately 2.5%. As a result, casket and funeral service revenue for Established Locations declined by only 0.7% versus the prior year. Funeral gross margin as a percentage of funeral revenue for Established Locations decreased to 38.7% in 1997 from 40.8% in 1996, due to decreased revenue of $6.0 million from a lower number of services that was partially offset by higher average revenue per service, coupled

with increased operating costs of $6.5 million. The increase in 1997 operating costs was primarily due to an addition to the reserve for doubtful accounts of approximately $5.0 million, and certain other charges aggregating approximately $0.6 million. Overall funeral gross margin as a percentage of funeral revenue decreased to 37.9% in 1997 from 40.5% in 1996, primarily as a result of the decrease in funeral gross margin at Established Locations, together with lower margins on acquired funeral locations.

Cemetery revenue increased 47.2% to $422.0 million in 1997 compared to $286.7 million in 1996, due to acquisitions. Cemetery revenues in 1997 included a higher proportion of pre-need sales of openings and closings, as well as caskets, which have a higher gross margin than other components of cemetery revenues. Excluding the factors described below, cemetery gross margin for Established Locations was 31.7%, slightly below 1996, as increased revenues were offset by higher selling costs, primarily commissions associated with pre-need sales, and other operating costs, such as maintenance. Overall cemetery gross margin percentage decreased to 28.2% in 1997 from 31.0% in 1996. The decrease in overall cemetery gross margin percentage was principally a result of (i) lower cemetery revenue of $10.4 million attributable to imputed interest on non-interest bearing installment contract sales in 1997, (ii) $2.0 million in cemetery cost of sales representing the write off of certain costs related to the National Baptist Convention program initiated during 1995 and terminated in the third quarter of 1997, (iii) reversal in 1997 of $3.7 million of sales and $1.2 million of related cost of sales recorded in 1996 for transactions not consummated, and (iv) $2.1 million in cemetery cost of sales related to a write down of cemetery accounts receivable.

Insurance revenue increased to $90.0 million for 1997 from $71.9 million in 1996. Insurance gross margin in 1997 was 18.5% compared to 17.5% in 1996, after adjusting 1996 to exclude $4.6 million for a revision to actuarial assumptions.

The Company's gross pre-arranged funeral sales increased to approximately $267 million in 1997 from approximately $190 million in 1996. Pre-arranged funeral services comprised approximately 21% of the funeral services performed by the Company in 1997 and approximately 19% of the funeral services performed by the Company in 1996. The Company estimates that it had a backlog of approximately $967 million in pre-need funeral sales as of December 31, 1997. Approximately 77% of the Company's cemetery revenue in 1997 was generated from pre-need sales compared with 66% in 1996. Note 2 to the 1998 Consolidated Financial Statements provides information regarding the accounting treatment of pre-arranged funeral services and pre-need cemetery sales.

General and administrative expenses for 1997 increased to $112.7 million from $71.2 million in 1996. Included in general and administrative expenses for 1997 are charges of (i) $9.4 million attributable to management's decision to negotiate the termination of covenant not to compete agreements with certain former owners in locales where the marketplace has changed and the restrictive covenants no longer have value to the Company, (ii) $6.0 million for litigation, (iii) $5.6 million for the write off of acquisition costs associated with acquisitions that management determined during the year to no longer pursue, (iv) $2.2 million of fixed asset write downs as a result of streamlining general and administrative functions, and (v) $1.6 million of software and other costs associated with a change in the Company's operating strategy. Also included in 1997 general and administrative expenses is the gain before taxes of $3.0 million on the sale of certain funeral home properties.

The Company recognized a restructuring charge of $33.4 million for the third quarter of 1997. The charge was principally composed of (i) $19.4 million related to the severance of 545 employees in operating locations where the Company was not achieving the full benefits of local staffing synergy, (ii) $6.0 million in fixed asset write downs as a result of management's decision to curtail or sell certain under-performing locations as part of the reorganization strategy, and (iii) $7.5 million for lease termination, severance of 47 employees and other expenses related to the closure of the Company's Covington, Kentucky corporate office.

Interest expense on long-term debt increased by $39.2 million in 1997, primarily as a result of additional borrowings by the Company to finance its expansion programs, as well as the increase in cemetery and funeral pre-need sales program activity.

In 1997, the Company refinanced a portion of its long-term debt to achieve a lower interest rate. As a result, the Company incurred a loss on early extinguishment of debt of $7.7 million related to the prepayment of a Cdn. $35 million term credit facility and the prepayment of three series of senior amortizing notes totaling approximately $100 million.

In November 1997, the Company completed the sale of its shareholdings in Arbor Memorial Services Inc. for a gain of approximately $24.1 million, $13.9 million after tax.

The income tax expense of $0.8 million and an effective tax rate of 1.8%, compares to an income tax expense of $23.5 million for 1996 and an effective tax rate of 26.2%. The change in effective tax rate in 1997 compared to 1996 is explained in Note 19 to the Company's Consolidated Financial Statements. The Company's effective tax rate was historically determined primarily through certain international and intercompany financing arrangements, as well as other tax strategies.

Equity and other earnings of associated companies increased to $13.4 million for 1997 from $3.6 million in 1996 due primarily to the inclusion for a full year of payment-in-kind dividends, partially offset by the Company's proportionate share of the full year loss attributable to the Common shares of Prime and Rose Hills, as described further in Note 5 to the 1998 Consolidated Financial Statements.

Net earnings decreased to $41.8 million in 1997 from $66.0 million in 1996. Fully diluted earnings per share decreased to $0.48 per share from $1.00 per share in 1996.

The Company's statement of cash flows for the year ended December 31, 1997 reflects cash applied to operations of approximately $160.7 million primarily as a result of increased cemetery and funeral pre-need sales programs.

ACQUISITIONS, INVESTMENTS, CAPITAL EXPENDITURES AND DISPOSITIONS

The Company acquired 89 funeral homes and 65 cemeteries during 1998 for consideration of approximately $278 million. During 1997, the Company acquired 138 funeral homes, 171 cemeteries and one insurance company for consideration of approximately $546 million. However, beginning in the second half of 1998, the Company virtually ceased its acquisition program. The Company expects acquisitions during 1999 to be minimal.

In December 1998, the Company completed the sale of its insurance subsidiary, First Capital. The aggregate proceeds from this sale were approximately $24 million, resulting in a gain before taxes of approximately $6.8 million.

On March 31, 1999, the Company completed the sale of 124 cemeteries and three funeral homes to an investor group led by McCown De Leeuw & Co., a private investment firm. The Company received gross proceeds of $193.0 million. The investor group included two former officers of the Company. The Company has two smaller groups of properties which are considered probable for sale. The Company has recorded a pre-tax impairment loss of $333.9 million in 1998 on individual properties contained in the above groups.

Although the Company intends to consummate additional asset sales, it is not committed to sell and has not identified any other properties for which sale is probable, other than noted above. As a result, no additional impairment losses have been recognized since future sales of other properties are not determinable. Should additional properties be sold, losses, if any, could be small or significant depending upon the type of property, location, cash flow and prevailing market conditions.

LIQUIDITY AND CAPITAL RESOURCES

Over the past three years, the Company's strategic growth plan had emphasized cemetery acquisitions, as compared to its historical emphasis on funeral home acquisitions. Acquisition and the integration of cemeteries has required significant cash due to the pre-need sales of cemetery interment rights, products and services and related interest costs on debt incurred. The Company expects to continue to incur negative cash flow from cemetery operations until it is able to satisfactorily implement various strategies to generate positive cash flow.

The Company's indebtedness includes the PATS Senior Notes which are held by a trust for the benefit of the holders of the pass-through asset trust securities due October 1, 1999. Notwithstanding the obligation to refinance the PATS Senior Notes on terms satisfactory to the lenders party to the Credit Agreements by September 15, 1999, the trust

has a put option that entitles the trust to redeem the PATS Senior Notes on October 1, 1999 to fund repayment of the pass-through asset trust securities under circumstances where no funding is tendered pursuant to a competitive bidding process. The Company does not expect to have sufficient funds to redeem these notes without further asset sales or proceeds from debt or equity issues. The Company is of the opinion that these notes have a prospect of being refinanced, however there is no certainty of such financing as it will depend primarily on financial market conditions and the Company's credit rating at that time.

As a result of expected negative cash flow from operations in 1999, scheduled debt maturities in 1999 and its current financial position, on March 31, 1999 the Company:

- Sold 124 cemeteries and three funeral homes for gross proceeds of $193 million of which $126.5 million was used to reduce indebtedness; and

- Completed negotiations with the lenders under the Credit Agreements resulting in revised lending agreements.

In addition to taking steps to improve profitability and cash flow throughout the organization, the Company has also reviewed its cemetery pre-need sales strategy, and to improve cash flow, began implementing changes to the terms and conditions of cemetery pre-need sales. These changes include: setting minimum contract terms; adjusting sales force compensation for sales with certain terms; and eliminating certain types of contracts in jurisdictions with poor cash flow characteristics after trusting obligations are considered.

The Company plans to finance its operations and capital expenditures in 1999 from existing cash balances, cash flow from operations and proceeds from further asset sales.

There is no certainty that these and other strategies will be sufficient to permit the Company to continue, or that the Company will be able to refinance the PATS Senior Notes on terms satisfactory to the lenders under the Credit Agreements by September 15, 1999. In the event that such actions and strategies are not successful, either the Company or its creditors may initiate proceedings for the liquidation or reorganization of the Company under Canadian or U.S. bankruptcy laws.

The Company's past objective has been to maintain its long-term debt/equity ratio, on average, in a range of 1.0:1 to 1.5:1. Accordingly, due to the timing of its acquisition program, the Company's long-term debt/equity ratio typically rose to the high end of the range, and then was reduced substantially by an equity issue. However, as a result of the Company's recent poor operating results and negative cash flow requiring increased borrowing for working capital needs, at December 31, 1998, the Company's long-term debt/equity ratio was 2.5:1. The Company does not have current plans to issue equity in 1999.

The Company's balance sheet at December 31, 1998 as compared to December 31, 1997, reflects changes principally from the impairment charges and contingent loss on purchase obligations, as well as acquisitions during the first half of 1998.

1998 FINANCINGS In March 1998, the Company amended its $1 billion revolving bank credit agreement (the "Revolving Credit Agreement"). As part of the amendment, the $250 million 364-day tranche was terminated and the $750 million tranche maturing in September 2002 was reduced to a $600 million revolving agreement due March, 2001.

In May 1998, LGII completed a private placement in the United States of $200 million of 7.20% Series 6 Senior Guaranteed Notes due 2003 (the "Series 6 Senior Notes") and $250 million of 7.60% Series 7 Senior Guaranteed Notes due 2008 (the "Series 7 Senior Notes"). The net proceeds from the Series 6 and 7 Senior Notes were used to repay indebtedness outstanding under the Revolving Credit Agreement. In September 1998, these notes were exchanged for identical notes registered under the Securities Act of 1933.

In September 1998, a subsidiary of the Company obtained a $98.0 million revolving receivables finance facility (the "Receivables Finance Facility") through a subsidiary of one of its bank lenders. Under the terms of the agreement, new receivables are added to the pool each month to offset collections from existing receivables. Another subsidiary of the Company services, administers and collects the receivables. The Receivables Finance Facility contains certain covenants and provides for various events of termination. This facility is secured by a pledge of the cemetery receivables held by

the subsidiary and as of September 15, 1999, no further receivables can be added to the pool. At December 31, 1998 the balance outstanding on the Receivables Finance Facility was $66.2 million which represents the maximum amount available. The Receivables Finance Facility bears interest at a floating rate based on commercial paper rates (December 31, 1998 — 5.51%). The Receivables Finance Facility is also subject to a commitment fee ranging from 1.10% - 3.25% of the total facility amount depending on certain financial ratios. Although there are no assurances, the Company plans to extend the Receivables Finance Facility or replace it with a similar facility with a longer term.

In September 1998, the Company terminated its Cdn. $50 million revolving credit agreement.

In March 1999, the Company completed negotiations with the lenders under the Credit Agreements resulting in revised lending agreements effective March 31, 1999, including waivers of certain financial covenants as of December 31, 1998. As a result, the Company has not had an event of default of the covenants in the Credit Agreements. The revised lending agreements:

- Provide for no further borrowings and reduce the Revolving Credit Agreement, including letters of credit, from $600 million to $294 million after application of a portion of the net proceeds from the Company's first major asset sale;
- Increase effective interest rates or applicable margins;
- Amend certain existing financial covenants and add other financial covenants;
- Require refinancing the PATS Senior Notes on terms satisfactory to the lenders party to the Credit Agreements by September 15, 1999;
- Require the appointment of a financial advisor on behalf of lenders and increased reporting and monitoring;
- Require the suspension of all Common share, Preferred share and MIPS dividend payments;
- Restrict further acquisitions and equity repurchases;
- Limit capital expenditures and expenditures for development of cemetery land to $60 million for 1999; and
- Permit additional asset sales subject to certain terms and conditions.

INDEBTEDNESS On March 31, 1999, the $600 million Revolving Credit Agreement was reduced to a $294 million facility as part of the revised lending agreements relating to the Credit Agreements. The Revolving Credit Agreement is secured in the manner described below under "Collateral Trust Agreement."

LGII also has outstanding $300 million of PATS Senior Notes. The PATS Senior Notes are held by a trust for the benefit of the holders of pass-through asset trust securities due October 1, 1999 (the "PATS Trust"). The PATS Senior Notes bear interest at a rate of 6.70% until October 1, 1999 (the "Reset Date"), at which time the interest rate will be reset (the "Reset Rate") for the balance of the term of the PATS Senior Notes at a fixed annual rate of 6.05% plus an adjustment equal to LGII's then-current credit spread to the ten-year U.S. Treasury rate on the Reset Date. In connection with the issuance of the PATS Senior Notes, LGII granted a put option to the PATS Trust that, in effect, entitles the PATS Trust to redeem the PATS Senior Notes, in whole but not in part, on the Reset Date. The PATS Trust will exercise the put option if the interest rate at the Reset Date is greater than the Reset Rate. The PATS Senior Notes are guaranteed by Loewen and secured in the manner described below under "Collateral Trust Agreement."

LGII has outstanding six series of senior guaranteed notes aggregating $1.2 billion (the "Senior Notes") issued in March and October of 1996 and May 1998. The Senior Notes are guaranteed by Loewen and bear interest rates ranging from 7.20% to 8.25% and have initial terms of five to ten years. LGII also has outstanding one series of senior amortizing notes (the "Series E Amortizing Notes") in the amount of $43 million. The Series E Amortizing Notes are guaranteed by Loewen, bear an interest rate of 6.49% and have an initial term of ten years.

Loewen has outstanding Cdn. $200 million of 6.10% Series 5 Guaranteed Notes, due 2002 (the "Series 5 Senior Notes"). The Series 5 Senior Notes are guaranteed by LGII and secured in the manner described below under "Collateral Trust Agreement." In addition, Loewen also has outstanding one series of senior amortizing notes (the

"Series D Amortizing Notes") in the amount of $43 million. The Series D Amortizing Notes are guaranteed by LGII and bear an interest rate of 9.62% and have an initial term of ten years. A subsidiary of Loewen has a $97 million secured bank term credit agreement maturing in July 2000 (the "MEIP Loan"), implemented in connection with the 1994 Management Equity Investment Plan.

COLLATERAL TRUST AGREEMENT In 1996, Loewen, LGII and their senior lenders entered into a collateral trust agreement pursuant to which the senior lenders share certain collateral and guarantees on a pari passu basis (the "Collateral Trust Agreement"). The security for lenders under the Collateral Trust Agreement consists of (i) all of LGII's right, title and interest in and to all rights to receive payment under or in respect of accounts, contracts, contractual rights, chattel paper, documents, instruments and general intangibles, (ii) a pledge of the shares of capital stock of substantially all of the subsidiaries in which Loewen directly or indirectly holds more than a 50% voting or economic interest and (iii) a guarantee by each subsidiary that is pledging stock. The security is held by a trustee for the equal and ratable benefit of the senior lending group. This senior lending group consists principally of the lenders under the Series 1-7 Senior Notes, the Series D and E Amortizing Notes, the Revolving Credit Agreement, the MEIP Loan and the PATS Senior Notes, as well as holders of certain letters of credit. In addition, there are various covenants that prohibit liens on the assets of the non-guaranteeing subsidiaries. At December 31, 1998, the indebtedness owed to the senior lending group subject to the Collateral Trust Agreement, including holders of certain letters of credit, aggregated approximately $2.1 billion.

RESTRICTIONS Certain of the Company's debt instruments and amended credit facilities contain restrictions, including change of control provisions, provisions requiring the Company to maintain specified financial ratios and provisions limiting the encumbrance of assets, payments to subsidiaries, the redemption or repurchase of shares, disposition of assets, additional debt, transactions with interested persons, sales of preferred stock, sale-leaseback transactions and merger and acquisitions. Under the terms of its Credit Agreements, the Company is prevented from paying dividends on Common shares, Preferred shares and MIPS securities.

In connection with the issuance of the Monthly Income Preferred Securities ("MIPS") by Loewen Group Capital, L.P. ("LGC") in August 1994, Loewen is guarantor of a Series A Junior Subordinated Debenture due August 31, 2024 issued by LGII (the "Series A Debenture"). Under the terms of the Series A Debenture, Loewen may not pay dividends on its Common shares if (i) there shall have occurred any event that, with the giving of notice or the lapse of time or both, would constitute an Event of Default (as defined in the Series A Debenture), (ii) Loewen is in default with respect to payment of any obligations under certain related guarantees or (iii) LGII shall have given notice of its election to select an Extension Period (as defined in the Series A Debenture), and such period, or any extension thereof, shall be continuing. For further information regarding the MIPS, see Note 9 to the 1998 Consolidated Financial Statements.

Payments of dividends and loans and advances by subsidiaries to Loewen or LGII are not restricted except that the Company's insurance subsidiaries are subject to certain state regulations that restrict distributions, loans and advances from such subsidiaries to the Company.

IMPACT OF THE YEAR 2000 ISSUE

OVERVIEW The Year 2000 Issue is the result of computer programs being written using two digits rather than four to define the applicable year. As a result, date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or other disruption of operations and impede normal business activities.

THE COMPANY'S STATE OF READINESS During the past two years, the Company has been evaluating and assessing its existing informational computer systems, as well as non-informational systems, and determined that it will be necessary to modify or replace certain portions of its software so that its systems will function properly beyond December 31, 1999. In particular, certain of the Company's financial reporting and information gathering systems, such as general ledger, fixed assets, payroll, commissions, accounts receivable and payable, etc., required varying degrees of

modification or replacement. Continued accurate and timely information processing and reporting is critical to the ongoing operations of the Company. Similarly, non-informational systems, such as communications systems, security systems, etc., are critical to the safe and uninterrupted performance of the Company. The evaluation of the non-informational systems determined that all significant areas are or will be Year 2000 compliant.

As systems were evaluated and assessed, a detailed work plan was developed to ensure that each area requiring modification or replacement is adequately and timely addressed. At this time, the Company's work plan continues to indicate that most significant areas have been or are scheduled to be remedied by mid-1999. Such work plan includes adequate time for remediation of the area, as well as testing to ensure the remediation efforts were complete. Additionally, the Company has established a task force and a review process to monitor remaining implementation plans and to determine whether all remaining areas have been assessed and evaluated, resources identified and remediation completed on a timely basis. A summary of the Company's work plan and status is as follows:

	EVALUATION COMPLETE	YEAR 2000 COMPLIANT	COMPLETION DATE
Corporate	Yes	Yes	N/A
Funeral Home Operations	Yes	No	3Q 1999
Cemetery Operations	Yes	No	3Q 1999
Insurance Operations	Yes	Yes	N/A

In addition, systems improvements and benefits beyond solution of the Year 2000 Issues are expected to be realized as a result of the above initiatives.

The Company has also made formal communications with its significant vendors to determine the extent to which the Company is vulnerable to those third parties' failure to remediate their own Year 2000 Issue. The Company is currently gathering information requested from third parties to complete its evaluation and assessment of what, if any, material relationships exist and whether or not such relationships present significant risks to the continued operations of the Company beyond 1999. This evaluation and assessment is expected to be completed by mid-1999. However, there can be no guarantee that the systems of other companies on which the Company's systems rely will be converted on a timely basis, or that a failure to convert by another company, or a conversion that is incompatible with the Company's systems, would not have material adverse effect on the Company.

THE COST TO ADDRESS THE COMPANY'S YEAR 2000 ISSUES To date, management estimates that the total cost incurred by the Company to evaluate, assess and remedy Year 2000 Issues has been less than $1 million, and is not material to the operating results or financial position of the Company. The expected future cost to complete evaluation, assessment and remediation of Year 2000 Issues, including replacement if necessary, is expected to be less than $2 million. Funding for addressing Year 2000 Issues will be achieved with operating funds of the Company.

The cost and the date on which the Company plans to complete the Year 2000 Issue modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events including the continued availability of certain resources, third party modification plans and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those plans. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and similar uncertainties. The Company's total Year 2000 Issue project cost and estimates to complete exclude the estimated costs and time associated with the impact of a third party's Year 2000 Issue, which are not determinable.

THE RISKS OF THE COMPANY'S YEAR 2000 ISSUES It is difficult to accurately project what the potential risks and ramifications to the Company may be in the event timely remediation efforts are not completed by either the Company or significant third parties. In such an event, it is possible that the ability to maintain accurate and complete financial records of the Company's activities and transactions, and possibly the timely and cost-effective procurement of merchandise, will be impaired. Such events, should they occur, would be likely to significantly impair the Company's ability to operate as it does today, creating business interruption, potential loss of business, and earnings and liquidity

difficulties. The Company presently believes that with progress made to date and current and planned modifications to existing software and conversions to new software, the risk of potential loss associated with the Year 2000 Issue can be mitigated. However, if such modifications and conversions are not made, or are not completed on a timely basis, the Year 2000 Issue could have a material impact on the operations of the Company.

In a "worst-case scenario," which is extremely difficult for the Company to predict, the Company may be unable to fulfill its customer service obligations in a timely manner, vendor payments may be delayed and timely and accurate financial reporting might be hindered. All such effects would be temporary, but the Company is not able to predict the exact nature of events and circumstances, extent of time nor cost that might be incurred if a "worst-case scenario" occurred. The Company believes that its Year 2000 initiatives described are adequate to mitigate such potential effects.

THE COMPANY'S CONTINGENCY PLANS Though the Company's Year 2000 Issue work plan is believed to be adequate to achieve full system compliance on a timely basis, there may be circumstances that could prevent timely implementation. Accordingly, the Company has designed its work plan to address this potential occurrence. First, the work plan has been designed to ensure that the most critical systems and areas are addressed first, and in a manner that provides adequate time to remediate and test thoroughly. Second, the Company has secured external expert resources to assist in evaluation, assessment, prioritization and implementation of the work plan to further ensure its success. Third, in the event the Company is unable to completely remediate a system, the Company has sought to develop, where necessary, an alternative solution as a back-up plan, such as developing a "parallel" remediation effort (i.e., modifying an existing system to ensure it is Year 2000 compliant at the same time such system is being completely replaced). The Company will continue to monitor and adjust its contingency plan needs in conjunction with the progress made on the primary work plan.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company primarily uses derivatives in the form of interest rate swaps, cross-currency interest rate swaps, and both Canadian and United States dollar borrowings. The objective is to manage the mix of floating and fixed rate debt and to substantially hedge the Company's net investment in foreign assets. The Company's major market risk exposures are to changing interest rates, equity prices and foreign currency fluctuations. The Company's exposure to interest rate fluctuations and equity prices primarily reside in the United States, while the Company's exposure to foreign currency fluctuations primarily resides in Canadian dollar investments. All derivative and other financial instruments described are non-trading and are stated in U.S. dollars. The Company's derivative contracts are entered into with major financial institutions, thereby minimizing the risk of credit loss. Fluctuations in interest and currency rates that affect the swaps are generally offset by corresponding movements in the assets or debt being hedged. The Company's market risk exposure, discussed below, provides information about the Company's market sensitive financial instruments and constitute "forward looking statements" which involve risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements.

The Company's debt instrument sensitivity to floating interest rates is based on approximately 90% and 10% of the Company's floating rate debt being based in the United States and Canada, respectively. Accordingly, changes in U.S. and Canadian interest rates affect the interest paid on the Company's debt. To reduce the impact of fluctuations in U.S. and Canadian interest rates, the Company generally manages interest rates such that 50% to 80% of the total debt is fixed rate debt. Interest rates are managed either by long-term borrowings or by entering into interest rate swap or option transactions. After allowing for the effect of the interest rate swaps at December 31, 1998, the Company's total debt has been converted into approximately $1.8 billion of fixed rate debt at a weighted average rate of 7.4% and approximately $465 million of floating interest rate debt at a weighted average rate of 7.1%. After allowing for the effect of the interest rate swaps, a one percent increase in the various floating rate debt indices would cause an approximately $4.7 million increase in the Company's annual interest expense.

The Company's PATS Senior Notes have an embedded option whereby the PATS trust has the ability to put the $300 million debt back to the Company at October 31, 1999, should the debt not be purchased by investors at the redemption date. Provided the option is exercised the Company will be required to pay the PATS trust the value of the

option, if any. The value of the option at December 31, 1998, is approximately $29.3 million and will fluctuate based on the 10-year U.S. Treasury rate and a strike price of 6.05%. Should the debt be purchased by investors the notes will have a 10 year maturity with a fixed rate of 6.05% plus an adjustment equal to the Company's then current credit spread.

The countries in which the Company has foreign operations are generally stable politically and economically and are not highly inflationary. The Company hedges a portion of its net investment in foreign assets. The foreign currency denominated debt acts as a hedge on foreign currency denominated earnings provided there is not an operating loss in the foreign currency denominated segment. Approximately 7% of the Company's net assets and 16% of operating loss are denominated in foreign currencies. None of the Company's net assets and approximately 16% of the Company's operating loss are subject to translation risk.

EQUITY-PRICE RISK MANAGEMENT The sale of prearranged funeral services, pre-need cemetery merchandise and insurance products result in the Company having significant investment in, or managing trusts that have significant investment in mutual funds and equity securities which are sensitive to current market prices. Fluctuations in interest and equity market rates on investments held in prearranged funeral trusts do not result in significant current income fluctuation as the income is not realized until services are performed. Investments in pre-need cemetery merchandise trusts and insurance invested assets predominately hold fixed income securities. These investments are generally held to maturity. Accordingly, any unrealized gains or losses created by fluctuations in interest rates will not be realized. The Company manages the mix of equities and fixed income securities in accordance with policies set by the Investment Committee which is comprised of members of senior management. The Investment Committee sets and modifies the mix of investments with the assistance of independent professional financial advisors. The policy emphasizes a conservative approach while maintaining acceptable levels of income and capital appreciation. Cost and market values of these investments as of December 31, 1998 and 1997 are presented in Notes 6, 7, 10 and 25 to the Company's Consolidated Financial Statements.

MARKET SENSITIVE FINANCIAL INSTRUMENTS RISK MANAGEMENT For certain assets and liabilities, the table presents principal cash flows and the related average interest rates by expected maturity dates for instruments held at December 31, 1998. For interest rate swaps, the table presents the notional amounts and weighted-average interest rates or strike rates by contractual maturity dates. Notional amounts are used to calculate the contractual cash flows to be exchanged under the contract.

QUANTITATIVE DISCLOSURE OF MARKET RISKS

	(THOUSANDS OF US DOLLARS)							
DECEMBER 31, 1998	1999	2000	2001	2002	2003	THEREAFTER	TOTAL	FAIR VALUE
LIABILITIES								
Fixed rate US $ debt	$ 444,903	$ 21,906	$ 369,061	$ 12,671	$ 562,173	$ 289,651	$ 1,700,365	$ 1,469,734
Average rate	7.1%	7.9%	7.6%	7.9%	7.9%	7.6%	7.5%	
Fixed rate Cdn. $ debt	1,082	599	307	130,961	307	1,323	134,579	105,830
Average rate	8.0%	8.0%	8.0%	6.1%	8.0%	8.0%	6.2%	
Floating rate US $ debt	494,360	824	685	504	576	2,343	499,292	499,292
Average rate	7.2%	8.0%	8.0%	8.0%	8.0%	8.0%	7.2%	
PREFERRED SECURITIES								
Monthly Income Preferred Securities	—	—	—	—	—	75,000	75,000	57,938
Average rate	—	—	—	—	—	9.5%	9.5%	
First Preferred Shares, Series C	—	—	—	—	—	157,146	157,146	90,271
Average rate	—	—	—	—	—	6.0%	6.0%	
INTEREST RATE DERIVATIVES								
Interest Rate Swaps								
US$ pay fixed — US$ receive variable	25,000	—	50,000	—	—	—	75,000	(1,428)
Average pay rate	5.8%	—	6.2%	—	—	—	6.0%	
Average receive rate	5.3%	—	5.3%	—	—	—	5.3%	
Cdn.$ pay fixed — Cdn.$ receive variable	—	—	—	45,737	—	—	45,737	590
Average pay rate	—	—	—	6.1%	—	—	6.1%	
Average receive rate	—	—	—	5.9%	—	—	5.9%	
Interest Rate Options								
US$ PATS senior notes put option (10 year)								
Notional Amount	300,000	—	—	—	—	—	300,000	(29,317)
Strike Rate	6.1%	—	—	—	—	—	6.1%	
US$ LIBOR cap (3 month)								
Notional Amount	100,000	—	—	—	—	—	100,000	(46)
Strike Rate	6.0%	—	—	—	—	—	6.0%	
Cross-currency Interest Rate Swap								
US$ floating to GBP floating	—	—	—	—	10,921	—	10,921	(315)
Average pay rate	—	—	—	—	7.0%	—	7.0%	
Average receive rate	—	—	—	—	7.3%	—	7.3%	

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

The management of The Loewen Group Inc. is responsible for the preparation of the accompanying consolidated financial statements and the preparation and presentation of all information in the Annual Report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and are considered by management to present fairly the financial position and operating results of the Company.

The Company maintains various systems of internal control to provide reasonable assurance that transactions are appropriately authorized and recorded, that assets are safeguarded, and that financial records are properly maintained to provide accurate and reliable financial statements.

The Company's audit committee is composed entirely of non-management directors and is appointed by the Board of Directors annually. The committee meets periodically with the Company's management and independent auditors to review financial reporting matters and internal controls and to review the consolidated financial statements and the independent auditors' report. The audit committee reported its findings to the Board of Directors who have approved the consolidated financial statements.

The Company's independent auditors, KPMG, have examined the consolidated financial statements and their report follows.

Robert B. Lundgren
President and Chief Executive Officer

Michael G. Weedon
Executive Vice-President and Chief Administrative Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of The Loewen Group Inc. as at December 31, 1998 and 1997 and the consolidated statements of operations, retained earnings (deficit) and cash flows for each of the years in the three year period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 1998, in accordance with generally accepted accounting principles in Canada. As required by the Company Act of the Province of British Columbia, we report that, in our opinion, these principles have been applied, after giving retroactive effect to the change in accounting principles described in Note 3 to the consolidated financial statements, on a consistent basis.

Significant differences between Canadian and United States accounting principles are explained and quantified in Note 25 to the consolidated financial statements.

KPMG LLP

Chartered Accountants
Vancouver, Canada

April 12, 1999

CONSOLIDATED BALANCE SHEETS

Expressed in thousands of U.S. dollars

	DECEMBER 31, 1998	DECEMBER 31, 1997 (Restated — Note 3)
Assets		
Current assets		
Cash and cash equivalents	$ 94,141	$ 36,767
Receivables, net of allowances	221,679	251,006
Inventories	34,482	34,885
Prepaid expenses	8,916	11,141
	359,218	333,799
Long-term receivables, net of allowances	647,092	553,663
Cemetery property	1,235,847	1,332,987
Property and equipment	825,985	797,178
Names and reputations	748,665	668,578
Investments	3,385	224,008
Insurance invested assets	266,661	305,610
Future income tax assets	12,003	7,849
Prearranged funeral services	413,934	410,379
Other assets	161,118	156,636
	$ 4,673,908	$ 4,790,687
Liabilities and Shareholders' Equity		
Current liabilities		
Current indebtedness	$ 66,222	$ —
Accounts payable and accrued liabilities	170,134	160,208
Long-term debt, current portion	874,123	43,507
	1,110,479	203,715
Long-term debt, net of current portion	1,393,891	1,750,427
Other liabilities	399,304	308,909
Insurance policy liabilities	166,920	214,492
Future income tax liabilities	208,939	309,994
Deferred prearranged funeral services revenue	413,934	410,379
Preferred securities of subsidiary	75,000	75,000
Shareholders' equity		
Common shares	1,274,096	1,271,177
Preferred shares	157,146	157,146
Retained earnings (deficit)	(539,741)	75,624
Foreign exchange adjustment	13,940	13,824
	905,441	1,517,771
	$ 4,673,908	$ 4,790,687

Financial condition (Note 1)

Commitments and contingencies (Notes 5, 8, 13, 16 and 17)

See accompanying notes to consolidated financial statements

On behalf of the Board

Director

Charles B. Loewen

Director

CONSOLIDATED STATEMENTS OF OPERATIONS

Expressed in thousands of U.S. dollars except per share amounts

	YEARS ENDED DECEMBER 31, 1998	1997 (Restated — Note 3)	1996 (Restated — Note 3)
Revenue			
Funeral	$ 631,221	$ 602,112	$ 549,833
Cemetery	408,497	422,010	286,652
Insurance	96,516	89,977	71,900
	1,136,234	1,114,099	908,385
Costs and expenses			
Funeral	407,302	374,191	326,892
Cemetery	357,183	302,965	197,776
Insurance	80,013	73,304	54,709
	844,498	750,460	579,377
	291,736	363,639	329,008
Expenses			
General and administrative	133,289	112,766	71,191
Depreciation and amortization	88,513	65,378	53,147
Asset impairment	333,900	—	—
Restructuring costs	—	33,364	—
	555,702	211,508	124,338
Earnings (loss) from operations	(263,966)	152,131	204,670
Interest on long-term debt	182,305	132,252	93,028
Investment impairment and contingent loss	315,207	—	—
Loss on early extinguishment of debt	—	7,675	—
Gain on sale of investment	—	(24,099)	—
Finance and other costs related to hostile takeover proposal	—	—	18,678
Earnings (loss) before undernoted items	(761,478)	36,303	92,964
Dividends on preferred securities of subsidiary	7,088	7,088	7,088
Earnings (loss) before income taxes and undernoted items	(768,566)	29,215	85,876
Income taxes			
Current	23,118	34,152	22,544
Future	(187,589)	(33,367)	927
	(164,471)	785	23,471
	(604,095)	28,430	62,405
Equity and other earnings of associated companies	5,126	13,380	3,594
Net earnings (loss) for the year	$ (598,969)	$ 41,810	$ 65,999
Basic earnings (loss) per Common share	$ (8.22)	$ 0.48	$ 1.01
Fully diluted earnings (loss) per Common share	$ (8.22)	$ 0.48	$ 1.00

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT)

Expressed in thousands of U.S. dollars except per share amounts

	YEARS ENDED DECEMBER 31,		
	1998	1997 (Restated — Note 3)	1996 (Restated — Note 3)
Retained earnings, beginning of year	$ 75,624	$ 58,305	$ 12,534
Net earnings (loss)	(598,969)	41,810	65,999
Common share dividends	(7,496)	(14,958)	(11,354)
Preferred share dividends	(8,900)	(9,533)	(8,874)
Retained earnings (deficit), end of year	$ (539,741)	$ 75,624	$ 58,305
Dividend per Common share	$ 0.100	$ 0.200	$ 0.200
Dividend per Preferred share	$ 1.011	$ 1.083	$ 1.008

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Expressed in thousands of U.S. dollars

	YEARS ENDED DECEMBER 31		
	1998	1997 (Restated — Note 3)	1996 (Restated — Note 3)
CASH PROVIDED BY (APPLIED TO)			
Operations			
Net earnings (loss)	$ (598,969)	$ 41,810	$ 65,999
Items not affecting cash			
Depreciation and amortization	88,513	65,378	53,147
Amortization of debt issue costs	26,581	6,802	4,096
Asset impairment	333,900	—	—
Investment impairment and contingent loss	315,207	—	—
Gain on sale of investments	(6,768)	(27,208)	—
Future income taxes	(187,589)	(33,367)	927
Equity and other earnings of associated companies	(5,126)	(13,380)	(3,594)
Restructuring costs	—	15,645	—
Other, including net changes in other non-cash balances	(90,247)	(216,394)	(167,438)
	(124,498)	(160,714)	(46,863)
Investing			
Business acquisitions	(252,598)	(481,617)	(556,921)
Construction of new facilities	(19,208)	(32,429)	(17,719)
Investments, net	(1,422)	14,523	(148,398)
Purchase of insurance invested assets	(224,145)	(261,987)	(85,193)
Proceeds on disposition and maturities of insurance invested assets	180,175	252,626	71,939
Purchase of property and equipment	(43,540)	(52,830)	(54,911)
Proceeds on disposition of investments and assets	56,340	70,087	3,685
	(304,398)	(491,627)	(787,518)
Financing			
Issue of Common shares, before income tax recovery	1,801	439,429	216,932
Issue of Preferred shares, before income tax recovery	—	—	154,094
Increase in long-term debt	1,105,441	1,343,545	1,037,389
Repayment of long-term debt	(645,667)	(1,082,970)	(514,510)
Common share dividends	(14,713)	(12,340)	(6,679)
Preferred share dividends	(8,900)	(9,533)	(6,466)
Current note payable	71,654	—	—
Repayment of current note payable	(5,432)	—	(38,546)
Debt issue costs	(17,884)	(7,120)	(29,158)
	486,300	671,011	813,056
Increase (decrease) in cash and cash equivalents during the year	57,404	18,670	(21,325)
Effect of foreign exchange adjustment	(30)	38	(70)
Cash and cash equivalents, beginning of year	36,767	18,059	39,454
Cash and cash equivalents, end of year	$ 94,141	$ 36,767	$ 18,059

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Tabular amounts expressed in thousands of U.S. dollars except per share amounts and number of shares

NOTE 1. FINANCIAL CONDITION

BASIS OF PRESENTATION These consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that The Loewen Group Inc. (the "Company") will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Certain conditions, described below, currently exist which cast doubt upon the validity of this assumption.

There is substantial doubt about the appropriateness of the use of the going concern assumption because the Company has experienced in 1998 both a significant net loss and negative cash flow. There is also uncertainty as to the Company's ability to refinance the pass-through asset trust senior guaranteed notes (the "PATS senior notes") which may be redeemed on October 1, 1999 and which require refinancing by September 15, 1999 under the terms of amended credit agreements. The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities when due is dependent on the successful completion of actions that the Company has taken or plans to take which management believes will mitigate the adverse conditions and events which raise doubt about the validity of the "going concern" assumption. However, there is no certainty that these actions or other strategies will be sufficient to permit the Company to continue, or that the Company will be able to refinance the PATS senior notes on terms acceptable to certain of the Company's lenders by September 15, 1999. In the event that such actions and strategies are not successful, either the Company or its creditors may initiate proceedings for the liquidation or reorganization of the Company under Canadian or U.S. bankruptcy laws.

The financial statements do not reflect adjustments that would be necessary if the "going concern" assumption were not appropriate. If the "going concern" basis was not appropriate for these financial statements, then significant adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

OPERATIONS The Company reported a loss from operations in 1998 of $263,966,000 after recording a charge for asset impairment of $333,900,000. Over the past three years, the Company's strategic growth plan had emphasized cemetery acquisitions, as compared to its historical emphasis on funeral home acquisitions. Acquisition and the integration of cemeteries has required significant cash due to the pre-need sales of cemetery interment rights, products, and services and related interest costs on debt incurred. The Company expects to continue to incur negative cash flow from cemetery operations until it is able to satisfactorily implement various strategies to generate positive cash flow.

FINANCING As a result of expected negative cash flow from operations during 1999, scheduled debt maturities in 1999 and its current financial position, on March 31, 1999 the Company:

- Sold 124 cemeteries and three funeral homes for gross proceeds of $193,000,000, of which $126,500,000 was used to reduce indebtedness; and

- Completed negotiations with the lenders under its bank credit agreement, Management Equity Investment Plan ("MEIP") bank term credit agreement, Series D and E senior amortizing notes and one privately held note agreements (collectively, the "Credit Agreements"), resulting in revised lending agreements effective March 31, 1999 including waivers of certain financial covenants as of December 31, 1998. As a result, the Company has not had an event of default of the covenants under the Credit Agreements. The revised lending agreements:
  - Provide for no further borrowings and reduce the bank credit agreement, including letters of credit, from $600,000,000 to $293,720,000 after application of a portion of the net proceeds from the Company's first major asset sale;
  - Increase effective interest rates or applicable margins;
  - Amend certain existing financial covenants and add other financial covenants;
  - Require refinancing of the PATS senior notes on terms satisfactory to the lenders party to the Credit Agreements by September 15, 1999;
  - Require the appointment of a financial advisor on behalf of lenders and increased reporting and monitoring;
  - Require the suspension of all Common share, Preferred share and MIPS dividend payments;
  - Restrict further acquisitions and equity repurchases;
  - Limit capital expenditures and expenditures for development of cemetery land to $60,000,000 for 1999; and
  - Permit additional asset sales subject to certain terms and conditions.

The Company's indebtedness includes the PATS senior notes which are held by a trust for the benefit of the holders of the pass-through asset trust securities due October 1, 1999. Notwithstanding the obligation to refinance the PATS senior notes on terms satisfactory to the lenders party to the Credit Agreements by September 15, 1999, the trust has a put option that entitles the trust to redeem the PATS senior notes on October 1, 1999 to fund the repayment of the pass-through asset trust securities under circumstances where no funding is tendered pursuant to a competitive bidding process. The Company does not expect to have sufficient funds to redeem these notes without further asset sales or proceeds from debt or equity issues. The Company is of the opinion that these notes have a prospect of being refinanced, however there is no certainty of such financing as it will depend primarily on financial market conditions and the Company's credit rating at that time.

The debt relating to the Credit Agreements and the PATS senior notes has been classified as current liabilities. The Series 1 to 7 Senior Notes have been classified as non-current liabilities but have cross default clauses that could accelerate payment if covenants in the Credit Agreements and PATS senior notes are not met and the lenders thereunder accelerate payment under those agreements.

The Company is continuing to review its operations in order to identify additional strategies to those identified above, including further asset sales, that are designed to generate cash flow, improve the Company's financial position, and enable the discharge of the Company's obligations.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada, which in the case of the Company, generally conform with those established in the United States, except as explained in Note 25.

The United States dollar is the principal currency of the Company's business and accordingly the consolidated financial statements are expressed in United States dollars.

BASIS OF CONSOLIDATION The accounts of all subsidiary companies have been included in the consolidated financial statements from their respective dates of acquisition of control or formation. All subsidiaries are wholly owned at December 31, 1998 except for a few companies with small minority interests. The Company's operating subsidiaries in the United States are held through Loewen Group International, Inc. ("LGII").

The Company accounts for its investment in companies in which it has significant influence by the equity method. The Company's proportionate share of income (loss) as reported, net of amortization of excess purchase price over net assets acquired, is included in income and added to (deducted from) the cost of the investment. Common share dividends received reduce the carrying amount of the investment.

The Company accounts for its investment in joint ventures using the proportionate consolidation method.

All significant inter-company balances and transactions have been eliminated in the consolidated financial statements.

USE OF ESTIMATES The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. As a result, actual results could significantly differ from those estimates.

PREARRANGED FUNERAL SERVICES Prearranged funeral services provide for future funeral services generally determined by prices prevailing at the time the contract is signed. The payments made under the contract, in part, are either placed in trust or are used to pay the premiums of life insurance policies under which the Company will be designated as beneficiary. Except for insurance commissions and amounts not required to be trusted, which are used to defray initial costs of administration, no income is recognized until the performance of a specific funeral.

Trust fund principal amounts and insurance contract amounts, together with trust fund investment earnings retained in trust and annual insurance benefits, are deferred until the service is performed. The Company estimates that trust fund investment earnings and annual insurance benefits exceed the increase in cost over time of providing the related services. Upon performance of the specific funeral service, the Company will recognize the trust fund principal amount or insurance contract amount together with the accumulated trust earnings and annual insurance benefits as funeral revenues. Direct obtaining costs related to the sale of prearranged funeral services are included in other assets and amortized over a period of ten years, approximating the period the benefits are expected to be realized. Indirect obtaining costs relating to the sale of prearranged funeral services are expensed in the period incurred.

CEMETERY OPERATIONS Pre-need sales of cemetery interment rights and other related products and services are recorded as revenue when customer contracts are signed with concurrent recognition of related costs. Interest is imputed at a market rate for contracts that do not bear a market rate of interest. An allowance for cancellations and refunds is provided at the date of sale based on management's estimates. The allowance is reviewed quarterly and changes in estimates are reflected for current and prior contracts as a result of recent cancellation experience. Actual cancellation rates in the future may result in a change in estimate.

A portion of the proceeds from cemetery sales is generally required by law to be paid into perpetual or endowment care trust funds. Cemetery revenue is recorded net of the amount to be deposited to perpetual or endowment care trust funds. Earnings of perpetual or endowment care trust funds are used to defray the maintenance costs of cemeteries. Additionally, pursuant to various state and provincial laws, a portion of the proceeds from the sale of preneed merchandise and services may also be required to be paid into trust funds which are recorded as long-term receivables.

INSURANCE OPERATIONS

(a) Insurance revenue The Company earns insurance revenue primarily through the sale of industrial life and ordinary life insurance policies.

(b) Insurance invested assets Bonds and other fixed-term securities are carried at amortized cost. Net realized gains and losses on the disposal of bonds and other fixed-term securities are deferred and amortized to income over the remaining term to maturity of the security sold. Equity securities are carried at moving average market value. Net realized gains and losses on the disposal of equity securities are deferred and amortized to income on a declining balance basis.

(c) Insurance policy liabilities Insurance policy liabilities represent an estimate of the amount which, together with future premiums and investment income, will be sufficient to pay future benefits, dividends and expenses on insurance and annuity contracts. Liabilities are computed using the policy premium method which involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields, future expense levels and rates of surrender. Consequently, policy liabilities include reasonable provisions for adverse deviations from those estimates. These assumptions will be revised if it is determined that future experience differs substantially from that previously assumed.

CASH AND CASH EQUIVALENTS Cash and cash equivalents include cash and term deposits with an initial maturity less than or equal to 90 days.

INVENTORIES Inventories are carried at the lower of cost, determined primarily on a specific identification basis or a first in first out basis, and net realizable value.

CEMETERY PROPERTY Cemetery property, including capitalized interest, consists of developed and undeveloped cemetery property and is valued at average cost. Amounts are expensed to costs and expenses as sales of cemetery plots occur.

PROPERTY AND EQUIPMENT Property and equipment is recorded initially at cost and depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	10 to 40 years
Automobiles	6 years
Furniture, fixtures and equipment	6 to 10 years
Computer hardware and software	6 years
Leasehold improvements	Over the term of the lease plus one renewal

NAMES AND REPUTATIONS The amount paid for the names and reputations of operations acquired is equivalent to the excess of the purchase price over the fair value of identifiable net assets acquired, as determined by management. Amortization is provided on a straight-line basis over 40 years.

Covenants not to compete included with names and reputations on the consolidated balance sheet represent amounts capitalized for non-competition agreements with certain key management personnel of acquired operations. Amortization of such prepaid covenants not to compete is provided on a straight-line basis over the terms of the relevant agreements, typically ten years.

IMPAIRMENT OF LONG-LIVED ASSETS The Company monitors the recoverability of long-lived assets, including investments, cemetery property, property and equipment, names and reputations and other assets based on estimates using factors such as future asset utilization, business climate and future undiscounted cash flows expected to result from the use of the related assets or realized upon sale. The Company's policy is to write down assets to their net recoverable amount in the period when it is determined that the carrying amount of the asset is not likely to be recoverable.

DEBT ISSUE COSTS Debt issue costs included in other assets on the consolidated balance sheet represent the costs of negotiating and securing the Company's long-term debt and preferred securities of subsidiary and are included in interest expense on a straight-line basis over the respective term of the related instrument. These costs include legal fees, accounting fees, underwriting and agency fees and other related costs.

ACQUISITION COSTS The Company's policy is to capitalize direct acquisition costs incurred on potential acquisitions. Upon completion of an acquisition, these costs are allocated to the assets acquired and are subject to the accounting policies outlined above. On certain acquisitions, a portion of the consideration is contingent upon future operating results. Such consideration, if any, is allocated to the assets acquired once determinable. Direct acquisition costs related to acquisitions not completed are written off.

DERIVATIVE INSTRUMENTS The Company enters into derivative transactions with financial institutions primarily as hedges of other financial transactions. The Company's policies do not allow leveraged transactions and are designed to minimize credit and concentration risk with counterparties.

The Company enters into interest rate swap agreements to manage interest rate exposure on its long-term debt. The difference between the amounts paid and received is accrued and accounted for as an adjustment to interest expense over the life of the swap agreement.

The Company uses basic swap and option products to manage its exposure to interest rate movements when anticipated financing transactions are probable and the significant characteristics and expected terms

are identified. Any gain or loss as a result of the hedging is deferred and amortized as an adjustment to interest expense over the life of the financing instrument hedged. If at any point in time a hedging transaction no longer meets the criteria of a hedge, any gain or loss is recognized in current earnings.

The Company also uses foreign exchange forward contracts, cross currency swaps, options and futures to hedge the Company's exposure to fluctuations in foreign exchange rates. Gains or losses as a result of the hedge transaction are accounted for as an adjustment to the related transaction.

SHARE ISSUE EXPENSES The costs of issuing shares, net of income tax recoveries thereon, are applied to reduce the stated value of such shares.

FUTURE INCOME TAXES The Company follows the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the substantive enactment date. A valuation allowance is recognized to the extent the recoverability of future income tax assets is not considered more likely than not.

EARNINGS PER SHARE Basic earnings (loss) per share figures are calculated based on net earnings (loss) attributable to Common shareholders using the weighted average number of Common shares outstanding during the respective periods.

Fully diluted earnings (loss) per share figures assume, if dilutive (a) exercise of employee and other stock options effective on their dates of issue and that the funds derived therefrom were invested at annual after-tax rates of return of 7.1% (1997 — 6.9%, 1996 — 6.5%), (b) conversion of the Series C Preferred shares effective on the date of the issue of the Series C Receipts and the add-back of the dividends during the period and (c) exercise of options and purchase rights under the 1994 Management Equity Investment Plan ("MEIP") effective on their dates of issue and the add-back of the interest under the related MEIP loan (see Note 11(d)).

FOREIGN CURRENCY TRANSLATION The assets and liabilities of the Canadian operations, which are accounted for as self-sustaining, have been translated into United States dollars at the rates of exchange as at the balance sheet dates, and revenue and expenses are translated at the average rates of exchange for the periods of operation. Gains or losses arising from the translation are deferred and are classified as "Foreign exchange adjustment" within Shareholders' equity.

NOTE 3. CHANGE IN ACCOUNTING PRINCIPLES

(A) INCOME TAXES Effective with the third quarter of 1998, the Company changed its policy for accounting for income taxes by adopting the provisions of Section 3465, Income Taxes, of the Handbook of the Canadian Institute of Chartered Accountants which is described in the Summary of Significant Accounting Policies. Previously, the Company followed the allocation method of accounting for income taxes.

The provisions were applied retroactively with restatement of prior period financial statements to January 1, 1993 which conforms to the effective date that the Company adopted Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, for its financial statement amounts presented under United States generally accepted accounting principles. As a result of adopting the new Canadian standard, the cumulative effect to opening retained earnings at January 1, 1996 was a decrease of $23,905,000. The cumulative effect on the consolidated balance sheet at December 31, 1998 is an increase in cemetery property and names and reputations of approximately $463,000,000 (December 31, 1997 — $411,000,000) primarily due to effects of acquisition accounting and a corresponding increase in future income tax liability of approximately $486,000,000 (December 31, 1997 — $433,000,000). The effect on the consolidated statement of operations for the twelve months ended December 31, 1998 was a decrease to net loss of approximately $9,180,000 (1997 — decrease to net earnings of $918,000; 1996 — increase to net earnings of $2,093,000).

(B) STATEMENT OF CASH FLOWS The Company adopted CICA Handbook Section 1540, Cash Flow Statements for the year ended December 31, 1998. The provisions were applied retroactively with restatement of prior period financial statements. Under Section 1540, non-cash investing and financing activities are excluded from the statement of cash flows and are disclosed in a note to the financial statements.

NOTE 4. ACQUISITIONS AND DISPOSITIONS

(A) ACQUISITIONS During the year ended December 31, 1998, the Company acquired 89 funeral homes and 65 cemeteries.

During the year ended December 31, 1997, the Company acquired 138 funeral homes, 171 cemeteries and one insurance company.

All of the Company's acquisitions have been accounted for by the purchase method. The preliminary purchase price allocation for certain of these acquisitions has been estimated based on available information at the time and is subject to revision. The effect of acquisitions at dates of purchase on the Consolidated Balance Sheet is shown below.

	1998	1997 (Restated — Note 3)
Current assets	$ 6,140	$ 10,138
Prearranged funeral services	19,529	37,271
Long-term receivables, net of allowances	2,914	85,098
Investments	405	36
Cemetery property	185,160	425,320
Property and equipment	45,237	87,587
Names and reputations	121,065	113,351
Other assets	12,518	264
	392,968	759,065
Current liabilities	(3,612)	(6,680)
Long-term debt	(3,402)	(4,948)
Other liabilities	(5,913)	(55,845)
Future income taxes	(82,519)	(107,823)
Deferred prearranged funeral services revenue	(19,529)	(37,271)
	$ 277,993	$ 546,498
Consideration		
Cash, including assumed debt repaid at closing	$ 252,598	$ 481,617
Debt	24,310	41,880
Common shares	1,085	23,001
Purchase Price	$ 277,993	$ 546,498

The following table reflects, on an unaudited pro-forma basis, the combined results of the Company's operations acquired during the year ended December 31, 1998 as if all such acquisitions had taken place at the beginning of the respective years presented. Appropriate adjustments have been made to reflect the accounting basis used in recording these acquisitions. This pro-forma information does not purport to be indicative of the results of operations that would have resulted had the acquisitions been in effect for the entire years presented, and is not intended to be a projection of future results or trends.

	1998	1997
Revenues	$ 1,156,095	$ 1,180,589
Net earnings (loss)	$ (600,962)	$ 41,588
Basic earnings (loss) per share	$ (8.24)	$ 0.48
Fully diluted earnings (loss) per share	$ (8.24)	$ 0.48

(B) DISPOSITIONS During the year, the Company sold First Capital Life Insurance Company of Louisiana, a wholly owned subsidiary, for gross proceeds of $24,522,000 resulting in a pre-tax gain of $6,768,000. The assets and liabilities disposed of were $89,958,000 and $72,204,000 respectively.

NOTE 5. INVESTMENTS

	1998	1997
Prime Succession Holdings, Inc. ("Prime")	$ —	$ 82,972
Rose Hills Holdings Corp. ("Rose Hills")	—	98,987
Investments of joint venture	—	40,113
Other	3,385	1,936
	$3,385	$224,008

(A) PRIME The Company owns 213.2353 shares of Prime common stock, representing 21.8% of Prime's voting common stock, and 100% of Prime's non-voting preferred stock, with a 10% cumulative annual payment-in-kind dividend. Blackstone Capital Partners II Merchant Banking Fund L.P. and certain affiliates (together, "Blackstone") owns 764.7059 shares of Prime common stock, representing 78.2% of Prime's voting common stock.

Prime holds all of the outstanding common shares of Prime Succession, Inc., an operator of funeral homes and cemeteries in the United States. Prime Succession, Inc. was purchased on August 26, 1996 for approximately $320,000,000 of which $52,000,000 was funded by Blackstone and $78,000,000 by the Company, and $190,000,000 was financed through bank borrowings and the issuance of senior subordinated notes. The excess of the purchase price over the fair value of net assets of approximately $230,000,000, was established as goodwill in Prime Succession, Inc. and is being amortized over 40 years.

Blackstone and the Company have the right to designate five and three nominees, respectively, to the Prime Board of Directors. Blackstone controls the strategic operating, investing and financing policies of Prime. Neither Blackstone nor the Company can, without the consent of the other party, sell or transfer its share in Prime to a party other than to an affiliate of itself.

Under a Put/Call Agreement entered into with Blackstone in August 1996, the Company has the option to acquire ("Call") Blackstone's Prime common stock commencing on the fourth anniversary of the acquisition, and for a period of two years thereafter, at a price determined pursuant to the Put/Call

Agreement. Blackstone has the option to sell ("Put") its Prime common stock to the Company commencing on the sixth anniversary of the acquisition, and for a period of two years thereafter, at a price determined pursuant to the Put/Call Agreement.

The prices for the Call and the Put are based on a formula that calculates the equity value attributable to Blackstone's common share interest. The calculated equity value is determined at the Put or Call date based on a multiple of approximately 12x earnings before interest, taxes, depreciation and amortization ("EBITDA") for the previous year, after deduction of certain liabilities. Any payment to Blackstone under the Call or the Put may be in the form of cash and/or Common shares of the Company, at the Company's option, subject to certain conditions.

Upon a Call, Blackstone will receive, at a minimum, its original investment plus a 24.1% compound return per annum thereon regardless of the calculated equity value. Any additional equity value attributable to Blackstone common stock interest is determined on the basis of a formula set forth in the Put/Call Agreement. Upon a Put by Blackstone, there is no guaranteed return to Blackstone. Any payment to Blackstone is limited to Blackstone's share of the calculated equity value based on a formula set forth in the Put/Call Agreement.

The Company provides various administrative services to Prime under an Administrative Services Agreement for an annual fee of $250,000.

Prior to the fourth quarter of 1998, the Company evaluated the exercise of the Call on the fourth anniversary date as likely. Due to liquidity concerns of the Company, the performance of Prime and the reduced market values for the Company's and other industry participants' stock, the Company has determined the exercise of the Call on the fourth anniversary as unlikely and the exercise of the Put as likely. Accordingly, the Company assessed that its investment suffered a decline in value that is other than temporary and has written down its investment based on an assumed distribution of Prime's shareholder's equity at December 31, 1998 taking into account Blackstone's return under the Put. In addition, the Company has estimated the expected Put option price on the sixth anniversary, the first date the Put option becomes exercisable by Blackstone, based on the Company's best estimate of EBITDA at that time and the relevant formula in the Put/Call Agreement. The Company has accrued a contingent loss based upon the difference between the estimated option price and the Company's estimate of the fair value of Blackstone's equity in Prime which is based in part on current market conditions. Such amount could change based on changes in the estimated future value of the business. A net liability (see Note 21) has been recorded reflecting an accrual of the expected loss on the option reduced by the remaining carrying value of Prime.

In 1998, 1997 and 1996 the Company recognized income (loss) of ($1,430,000), $5,073,000 and $1,156,000, relating to its investment in Prime, excluding the 1998 investment impairment and contingent loss.

Summarized financial data for Prime are presented as follows:

	1998	1997	1996
Income statement information:			
Revenue	$ 98,005	$101,139	$ 32,651
Gross margin	32,293	38,616	11,066
Earnings from operations	17,595	24,123	5,492
Payment-in-kind dividend	7,226	6,542	2,300
Net loss attributable to common shareholders	(14,524)	(6,739)	(5,250)
Balance sheet information:			
Current assets	$ 22,820	$ 25,694	$ 24,614
Non-current assets	368,302	369,412	374,174
Total assets	391,122	395,106	398,788
Current liabilities	15,952	14,964	22,531
Non-current liabilities	256,060	253,734	249,652
Total liabilities	272,012	268,698	272,183
Shareholders' equity	119,110	126,408	126,605

(B) ROSE HILLS The Company owns 204.5454 shares of Rose Hills common stock, representing 20.45% of Rose Hills' voting common stock, and 100% of Rose Hills non-voting preferred stock, with a 10% cumulative annual payment-in-kind dividend. Blackstone owns 795.4546 shares of Rose Hills common stock, representing 79.55% of Rose Hills' voting common stock.

Rose Hills holds all of the outstanding common stock of Rose Hills Company ("RHC") and the cemetery related assets of Rose Hills Memorial Park Association, representing the largest single location cemetery in the United States. These companies were purchased on November 19, 1996 for approximately $285,000,000 of which $130,000,000 was funded by Blackstone and the Company, and $155,000,000 was financed through bank borrowings and the issuance of senior subordinated notes. The excess of the purchase price over the fair value of net assets of approximately $130,000,000 was established as goodwill in RHC and is being amortized over 40 years.

Blackstone and the Company have the right to designate five and three nominees, respectively, to the Rose Hills' Board of Directors. Blackstone controls the strategic operating, investing and financing policies of Rose Hills. Neither Blackstone nor the Company can, without the consent of the other party, sell or transfer its shares in Rose Hills to a party other than to an affiliate of itself.

Under a Put/Call Agreement entered into with Blackstone in November 1996, the Company has the option to acquire ("Call") Blackstone's Rose Hills common stock commencing on the fourth anniversary of the acquisition, and for a period of two years thereafter, at a price to be determined pursuant to the Put/Call Agreement. Blackstone has the option to sell ("Put") its Rose Hills common stock to the Company commencing on the sixth anniversary of the acquisition, and for a period of two years thereafter, at a price determined pursuant to the Put/Call Agreement.

The prices for the Call and the Put are based on a formula that calculates the equity value attributable to Blackstone's common share interest. The calculated equity value is determined at the Put or Call date based on a multiple of approximately 13x earnings before interest, taxes, depreciation and amortization ("EBITDA") for the previous year, after deduction of certain liabilities. Any payment to Blackstone under the Call or the Put may be in the form of cash and/or Common shares of the Company, at the Company's option, subject to certain conditions.

Upon a Call, Blackstone will receive, at a minimum, its original investment plus a 22.5% compound return per annum thereon regardless of the calculated equity value. Any additional equity value attributable to Blackstone common stock interest will be determined on the basis of a formula set forth in the Put/Call Agreement. Upon a Put by Blackstone, there is no guaranteed return to Blackstone. Any payment to Blackstone is limited to Blackstone's share of the calculated equity value based on a formula set forth in the Put/Call Agreement.

The Company provides various management and administrative services to RHC and subsidiaries under an Administrative Services Agreement for an annual fee of $250,000. If the Administrative Services Agreement becomes terminable by Blackstone due to the Company's material breach thereof or other failure to comply in any material respect, Blackstone under the Put will receive, at a minimum, its original investment plus a 25% compound return per annum thereon which increases to 27.5% in the event of a change in control of the Company, regardless of the calculated equity value.

Prior to the fourth quarter of 1998, the Company evaluated the exercise of the Call on the fourth anniversary date as likely. Due to liquidity concerns of the Company, the performance of Rose Hills and the reduced market values for the Company's and other industry participants' stock, the Company has determined the exercise of the Call on the fourth anniversary as unlikely and the exercise of the Put as likely. Accordingly, the Company assesses that its investment suffered a decline in value that was other than temporary and has written down its investment based on an assumed distribution of Rose Hills' shareholder's equity at December 31, 1998 taking into account Blackstone's return under the Put. In addition, the Company has estimated the expected Put option price on the sixth anniversary, the first date the option becomes exercisable, based on the Company's best estimate of EBITDA at that time and the relevant formula in the Put/Call Agreement. The Company has accrued a contingent loss based upon the difference between the estimated option price and the Company's estimate of the fair value of Blackstone's equity in Rose Hills which is based in part on current market conditions. Such amount could change based on changes in the estimated future value of the business. A net liability (see Note 21) has been recorded reflecting an accrual of the expected loss on the option, offset by the remaining carrying value of Rose Hills.

In 1998, 1997 and 1996 the Company recognized income of $6,535,000, $6,566,000 and $464,000, relating to its investment in Rose Hills, excluding the 1998 investment impairment and contingent loss.

Summarized financial data for Rose Hills are presented as follows:

	1998	1997	1996
Income statement information:			
Revenue	$ 83,577	$ 70,645	$ 7,080
Gross margin	69,814	59,900	5,982
Earnings from operations	19,538	14,738	1,327
Payment-in-kind dividend	9,568	8,708	932
Net loss attributable to common shareholders	(8,534)	(10,476)	(1,460)
Balance sheet information:			
Current assets	$ 23,011	$ 20,400	$ 21,272
Non-current assets	298,922	292,198	296,562
Total assets	321,933	312,598	317,834
Current liabilities	20,488	15,221	15,510
Non-current liabilities	173,153	170,119	173,298
Total liabilities	193,641	185,340	188,808
Shareholders' equity	128,292	127,258	129,026

(C) INVESTMENTS OF JOINT VENTURE The Company was a party to a joint venture for investment purposes. The investment balance represented the Company's proportionate share of the joint venture's investment in credit card receivables. In 1998, the investment matured, the joint venture's liabilities were repaid and the joint venture was liquidated.

NOTE 6. INSURANCE INVESTED ASSETS

	DECEMBER 31, 1998		DECEMBER 31, 1997	
	CARRYING VALUE	MARKET VALUE	CARRYING VALUE	MARKET VALUE
Fixed maturities	$246,576	$251,454	$281,659	$290,200
Equity securities	80	44	110	55
Short-term investments and other	20,005	20,005	23,841	23,841
	$266,661	$271,503	$305,610	$314,096

On the insurance invested assets, the Company earned $21,349,000 of investment income for the year ended December 31, 1998 (1997 — $23,847,000). Included in the market value of insurance invested assets are $6,942,000 and $2,100,000 of unrealized gains and losses, respectively (1997 — $8,947,000 and $461,000, respectively).

Maturities of fixed maturity securities, excluding mortgage-backed securities and collateralized mortgage obligations, are estimated as follows: $6,853,000 due in one year or less (1997 — $6,081,000), $25,667,000 due in one to five years (1997 — $30,576,000), $67,598,000 due in five to ten years (1997 — $81,005,000), and $72,843,000 due after ten years (1997 — $52,929,000). Maturities on a market value basis are approximately the same as the amortized cost basis at December 31, 1998. The Company had approximately $73,615,000 (1997 — $111,068,000) in mortgage-backed securities and collateralized mortgage obligations at December 31, 1998 with a market value of $76,649,000 (1997 — $115,015,000).

NOTE 7. PREARRANGED FUNERAL SERVICES

Prearranged funeral services represents amounts deposited in accordance with state trusting laws with various financial institutions together with accrued earnings. The Company will receive the prearranged funeral trust amounts when the funeral services are performed. The funds deposited in trust are invested as follows:

	1998	1997
Short-term investments	$151,113	$145,365
Fixed maturities	142,385	92,555
Balanced mutual funds	1,419	123,080
Equity securities	65,268	14,970
Insurance policies held by trust	52,844	32,552
Other	905	1,857
	$413,934	$410,379

The weighted average rate of return on the above prearranged funeral trust assets for the year ended December 31, 1998 was 3.0% (1997 — 3.8%, 1996 — 5.2%).

NOTE 8. DEBT

CURRENT INDEBTEDNESS In September 1998, a subsidiary of the Company obtained a $98,039,000 revolving receivables finance facility (the "Receivables Finance Facility") through a subsidiary of one of its bank lenders. Under the terms of the agreement, new receivables are added to the pool each month to offset collections from existing receivables. Another subsidiary of the Company services, administers and collects the receivables. The Receivables Finance Facility contains certain covenants and provides for various events of termination. This facility is secured by a pledge of the cemetery receivables held by the subsidiary and as of September 15, 1999 no further receivables can be added to the pool. At December 31, 1998 the balance outstanding on the Receivables Finance Facility was $66,222,000, which represents the maximum amount available to the Company based on eligible receivables which secure the loan. The Receivables Finance Facility bears interest at a floating rate based on commercial paper rates (December 31, 1998 — 5.51%). The Receivables Finance Facility is also subject to a commitment fee ranging from 1.10%-3.25% of the total facility amount, depending on certain financial ratios.

LONG-TERM DEBT

	1998	1997
Bank credit agreement	$ 330,000	$ 264,729
Management Equity Investment Plan ("MEIP") bank term credit agreement due in 2000	97,292	105,140
9.62% Series D senior amortizing notes due in 2003	42,857	51,429
6.49% Series E senior amortizing notes due in 2004	42,857	50,000
7.50% Series 1 senior notes due in 2001	225,000	225,000
7.75% Series 3 senior notes due in 2001	125,000	125,000
8.25% Series 2 and 4 senior notes due in 2003	350,000	350,000
6.10% Series 5 senior notes due in 2002 (Cdn. $200,000,000)	130,676	139,948
7.20% Series 6 senior notes due in 2003	200,000	—
7.60% Series 7 senior notes due in 2008	250,000	—
6.70% PATS senior notes	300,000	300,000
Present value of notes issued for legal settlements discounted at an effective interest rate of 7.75%	38,147	39,115
Present value of contingent consideration payable on acquisitions discounted at an effective interest rate of 8.0%, see Note 23	19,785	24,515
Other, principally arising from vendor financing of acquired operations or long-term debt assumed on acquisitions, bearing interest at fixed and floating rates varying from 4.8% to 14.0%, certain of which are secured by assets of certain subsidiaries	116,400	119,058
	2,268,014	1,793,934
Less current portion:		
Bank credit agreement	330,000	—
MEIP bank term credit agreement due in 2000	97,292	—
9.62% Series D senior amortizing notes due in 2003	42,857	7,143
6.49% Series E senior amortizing notes due in 2004	42,857	8,572
6.70% PATS senior notes	300,000	—
Present value of notes issued for legal settlements discounted at an effective interest rate of 7.75%	21,450	998
Present value of contingent consideration payable on acquisitions discounted at an effective interest rate of 8.0%, see Note 23	14,947	4,730
Other	24,720	22,064
	874,123	43,507
	$1,393,891	$1,750,427

(a) The Company completed negotiations with the lenders under the Credit Agreements resulting in revised lending agreements, effective March 31, 1999, including waivers of certain financial covenants as of December 31, 1998. As a result, the Company has not had an event of default of the covenants under the Credit Agreements. The revised lending agreements:

- Provide for no further borrowings and reduce the bank credit agreement, including letters of credit, from $600,000,000 to $293,720,000 after application of a portion of the net proceeds from the Company's first major asset sale;
- Increase effective interest rates or applicable margins;
- Amend certain existing financial covenants and add other financial covenants;
- Require refinancing of the PATS senior notes on terms satisfactory to the lenders party to the Credit Agreements by September 15, 1999;
- Require the appointment of a financial advisor on behalf of lenders and increased reporting and monitoring;
- Require the suspension of all Common share, Preferred share and MIPS dividend payments;
- Restrict further acquisitions and equity repurchases;
- Limit capital expenditures and expenditures for development of cemetery land to $60,000,000 for 1999; and
- Permit additional asset sales subject to certain terms and conditions.

The debt relating to the Credit Agreements and the PATS senior notes have been classified as current liabilities. The Series 1 to 7 Senior Notes have been classified as non-current liabilities but have cross default clauses that could accelerate payment if covenants in the Credit Agreements and PATS senior notes are not met and the lenders thereunder accelerate payment under those agreements.

(b) In 1996, the Company, LGII and their senior lenders entered into a collateral trust agreement pursuant to which the senior lenders share certain collateral and guarantees on a pari passu basis (the "Collateral Trust Agreement"). The security for lenders under the Collateral Trust Agreement consists of (i) all of LGII's right, title and interest in and to all rights to receive payment under or in respect of accounts, contracts, contractual rights, chattel paper, documents, instruments and general intangibles, (ii) a pledge of the shares of capital stock of substantially all of the subsidiaries in which the Company directly or indirectly holds more than a 50% voting or economic interest and (iii) a guarantee by each subsidiary that is pledging stock. The security is held by a trustee for the equal and ratable benefit of the senior lending group. The senior lending group consists principally of the lenders under the senior amortizing notes, senior notes and bank and term credit agreements as well as the holders of certain letters of credit. At December 31, 1998, the indebtedness owed to the senior lending group subject to the collateral trust agreement, including holders of certain letters of credit, aggregated $2,108,000,000.

Certain of the above senior note agreements contain various restrictive provisions, including change of control provisions and provisions restricting payment of dividends on Common and Preferred shares,

restricting encumbrance of assets, limiting redemption or repurchase of shares, limiting disposition of assets and limiting the amount of additional debt. The senior notes also provide for a default in the event of the acceleration of certain other debt.

(c) In March 1998, the Company amended its $1,000,000,000 bank credit agreement. As part of the amendment, the 364-day tranche was terminated and the $750,000,000 tranche was reduced to a $600,000,000 bank credit agreement with a three-year term. On March 31, 1999 the Company further amended its bank credit agreement (see Note 8(a)).

The Company's bank credit agreement and MEIP bank term credit agreement bear interest at floating rates (7.31% at December 31, 1998), based on U.S. LIBOR rates or the prime lending rates of certain banks, plus an applicable margin.

(d) The PATS senior notes are due in 2009, however they are redeemable at the election of the holder, in whole but not in part, at 100% of the principal amount on October 1, 1999. The PATS senior notes bear interest at a rate of 6.70% until October 1, 1999, at which time, if no redemption election occurs, the interest rate will be reset at a fixed annual rate of 6.05% plus an adjustment equal to the Company's then current credit spread to the ten-year United States Treasury rate (see Note 16(h)).

(e) In September 1998, the Company's Cdn. $50,000,000 revolving credit agreement was terminated. Repayment of the senior amortizing notes commenced September 1997 for Series D and February 1998 for Series E, all in equal annual amounts to the respective due dates. In March 1999, the Series D senior amortizing notes were amended to defer the September 1999 principal payment of $8,571,000 to January 2000.

(f) In May 1998, LGII completed a private placement in the United States of $200,000,000 of 7.20% Series 6 Senior Guaranteed Notes due 2003 (the "Series 6 senior notes") and $250,000,000 of 7.60% Series 7 Senior Guaranteed Notes due 2008 (the "Series 7 senior notes"). The net proceeds from the Series 6 and 7 senior notes were used to repay indebtedness outstanding under the bank credit agreement. In September 1998, these notes were exchanged for identical notes registered under the Securities Act of 1933.

(g) The notes issued under legal settlements represent a promissory note in the amount of $80,000,000 payable over 20 years in equal annual installments of $4,000,000, without interest. Interest is accrued on the discounted amount and is included in accounts payable and accrued liabilities. Annual payments will eliminate this accrual and the balance will be applied to the promissory note.

(h) Included in interest expense is $26,581,000 of amortization and write-offs of debt issue costs (1997 — $6,802,000, 1996 — $4,096,000)

(i) Maturities of long-term debt are as follows:

	TOTAL
1999	$ 874,123
2000	23,329
2001	370,053
2002	144,136
2003	563,056
Thereafter	293,317
	$2,268,014

NOTE 9. PREFERRED SECURITIES OF SUBSIDIARY

On August 15, 1994, 3,000,000 9.45% Cumulative Monthly Income Preferred Securities, Series A ("MIPS") were issued by Loewen Group Capital, L.P. ("LGC") in a public offering for an aggregate amount of $75,000,000. LGC is a limited partnership and LGII as its general partner manages its business and affairs. LGII serves as the holding company for all United States assets and operations of the Company. The consolidated financial statements of LGII are prepared in accordance with Canadian generally accepted accounting principles and are presented in United States dollars.

Summarized financial data for LGII are presented as follows:

	1998	1997	1996
		(Restated — Note 3)	(Restated — Note 3)
Income statement information			
Revenue	$ 1,072,556	$ 1,035,099	$ 839,352
Gross margin	275,139	305,764	293,636
Earnings (loss) from operations	(217,088)	120,622	179,522
Net loss	(635,912)	(78,750)	(3,107)
Balance sheet information			
Current assets	$ 236,014	$ 244,552	$ 223,388
Non-current assets	3,904,500	3,965,795	3,084,990
Total assets	4,140,514	4,210,347	3,308,378
Current liabilities	1,207,708	172,371	156,290
Non-current liabilities	3,237,888	3,737,722	2,958,334
Total liabilities	4,445,596	3,910,093	3,114,624
Shareholders' equity (deficiency)	(305,082)	300,254	193,754

The MIPS are due August 31, 2024 and are subject to redemption at par at the option of LGC, in whole or in part, from time to time, on or after August 31, 2004.

Holders of the MIPS are entitled to receive cumulative dividends at an annual rate of 9.45% of the liquidation preference of $25 per MIPS. The dividends accrue from the date of original issuance and are payable monthly in arrears.

The Company has the right to defer payment of dividends on the MIPS for one or more periods, each not to exceed 60 consecutive months. In this event the Company may not declare or pay dividends on, or redeem, purchase or acquire or make a liquidation payment with respect to any class of its capital stock.

In March, 1999 the Company announced that payment of the MIPS dividends had been deferred (see Note 24).

The Company has guaranteed certain payment obligations of LGII to LGC and of LGC to the MIPS holders. The guarantees are subordinated to all liabilities of the Company and are unsecured.

NOTE 10. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company enters into derivative transactions with financial institutions primarily as hedges of other financial transactions. The Company does not trade in financial instruments and is not a party to leveraged derivatives.

(A) SWAP AGREEMENTS AND INTEREST RATE OPTIONS The Company has entered into swap agreements and interest rate options with a number of different commercial banks and financial institutions to manage its interest rate exposure on fixed rate long-term debt. At December 31, 1998, such agreements included:

(1) Three interest rate swap agreements with commercial banks and financial institutions, each having a notional principal amount of $25,000,000. The Company will receive floating Libor based rates determined quarterly (5.253% at December 31, 1998) and will pay fixed rates of 5.755%, 6.200% and 6.190% under the agreements. The agreements expire in June 1999, June 2001 and June 2001, respectively.

(2) Two interest rate swap agreements with commercial banks, having an aggregate notional principal amount of Cdn. $70,000,000. The Company will receive a fixed rate of 6.100% and will pay floating Bankers Acceptance based rates determined quarterly (5.9218% at December 31, 1998). The agreements expire in October 2002.

(3) A perpetual cross-currency swap with a commercial bank, having a notional principal amount of $10,921,000 and GBP 6,700,000. The exchange rate is reset every 5 years, beginning November, 2003. The Company will receive floating $US Libor determined quarterly (5.20% at December 31, 1998) and will pay floating GBP Libor plus .04% (6.79% at December 31, 1998) determined quarterly.

The Company is exposed to credit losses in the event of non-performance by the other parties to the interest rate and currency swap agreements. However, the Company does not anticipate non-performance by the counterparties. The carrying amounts of the interest rate and currency swap agreements approximate fair values at December 31, 1998.

(B) FAIR VALUE OF FINANCIAL INSTRUMENTS The carrying amount of cash and term deposits, current receivables, current indebtedness, accounts payable and accrued liabilities and liabilities of joint venture approximates fair value due to the short-term maturities of these instruments. The fair value of

insurance policy liabilities has been omitted because it is not practicable to determine fair values with sufficient reliability. Financial instruments with a carrying value materially different from their fair value include:

	DECEMBER 31, 1998		DECEMBER 31, 1997	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
(1) Financial assets				
Prearranged funeral services	$ 413,934	$ 415,759	$ 410,379	$ 415,966
Insurance invested assets	266,661	271,503	305,610	314,096
Long-term receivables				
Practicable to estimate fair value	391,842	399,943	275,866	278,415
Not practicable	255,250	—	277,797	—
(2) Financial liabilities				
Long-term debt	$2,268,014	$2,008,634	$1,793,934	$1,833,203
Preferred securities of subsidiary	75,000	57,938	75,000	81,375

The fair value determination of prearranged funeral services, insurance invested assets and long-term receivables is based on quoted market prices. The long-term receivables for which it is not practicable to estimate fair value comprise primarily installment receivables on cemetery sales, which generally have terms of three to five years and bear interest ranging from 8% to 15%.

The fair value of long-term debt subject to fixed interest rates is estimated by discounting the future cash flows, including interest payments, using rates currently available for debt of similar terms and maturity, based on the Company's credit standing and other market factors. The fair value of long-term debt subject to floating market rates approximates its carrying value. The fair value of the preferred securities of a subsidiary is estimated based upon quoted market prices.

NOTE 11. SHARE CAPITAL

(A) AUTHORIZED 200,000,000 (1997 — 200,000,000) First Preferred shares without par value
40,000,000 (1997 — 40,000,000) Class A shares without par value
750,000,000 (1997 — 750,000,000) Common shares without par value

Of the 200,000,000 First Preferred shares, 1,000,000 shares are designated as 7.75% Cumulative Redeemable Convertible First Preferred Shares without par value, Series A, 425,000 shares are designated as Convertible First Preferred Shares, Series B, see Note 11(c), and 8,800,000 shares are designated as 6.00% Cumulative Redeemable Convertible First Preferred Shares, Series C ("Series C Preferred shares") (see Note 11(c)).

(B) ISSUED AND OUTSTANDING

	NUMBER OF SHARES	STATED VALUE
Common shares and contributed surplus		
Outstanding December 31, 1995	48,167,765	$ 490,055
Issued for cash by public offering, net of expenses of $5,558,000	7,700,000	216,576
Issued for legal settlements	2,500,000	72,000
Issued for cash on exercise of stock options, including related tax benefits	315,583	5,214
Issued for cash under stock purchase plan	20,850	708
Issued for acquisitions	340,537	11,651
Issued under employee stock bonus plan	12,280	227
Outstanding December 31, 1996	59,057,015	796,431
Issued for cash by public offering, net of expenses of $10,402,000	13,800,000	445,136
Issued for cash on exercise of stock options, including related tax benefits	181,086	4,813
Issued for cash under stock purchase plan	56,625	1,630
Issued for acquisitions, see Note 4	807,161	23,001
Issued under employee stock bonus plan	9,010	166
Outstanding December 31, 1997	73,910,897	1,271,177
Issued for cash on exercise of stock options, including related tax benefits	54,876	1,092
Issued for cash under stock purchase plan	18,425	650
Issued for acquisitions, see Note 4	64,007	1,085
Issued under employee stock bonus plan	7,885	92
Outstanding December 31, 1998	74,056,090	$1,274,096
Preferred shares		
Series C Preferred shares	8,800,000	$ 157,146

(C) FIRST PREFERRED SHARES First Preferred shares may be issued from time to time in one or more series and in such numbers and with such special rights and restrictions as the directors of the Company determine.

During 1994, as part of the Management Equity Investment Plan, 425,000 shares were designated as Convertible First Preferred shares, Series B of the Company. Each Convertible First Preferred share is convertible into ten Common shares at any time prior to July 13, 2011. No Series B Preferred shares have been issued.

The Series C Preferred shares were issued for cash of $157,146,000 by public offering, net of expenses of $3,776,000, in 1996. The holders of Series C Preferred shares will have the right at any time before January 1, 2003, to convert each Series C Preferred share into that number of Common shares determined by dividing Cdn. $25.00 by Cdn. $38.125. Thereafter, a holder of Series C Preferred shares will have the right on January 1, 2003, and on the first business day of each quarter thereafter, to convert all or part of such Series C Preferred shares into that number of Common shares determined by dividing Cdn. $25.00 plus accrued and unpaid dividends by the greater of Cdn. $3.00 and 95% of the Current Market Price (as defined) on the date of conversion.

The holders of the Series C Preferred shares are entitled, as and when declared by the Board of Directors, to a fixed preferential cumulative cash dividend of 6% per year, payable quarterly.

The Series C Preferred shares will not be redeemable by the Company prior to July 1, 1999.

On or after July 1, 1999, the Series C Preferred shares will be redeemable by the Company, upon giving not less than 30 days notice, at a redemption price equal to Cdn. $25.00 per share together with accrued and unpaid dividends. Prior to July 1, 2001, the redemption will only be effected by the issuance

of Common shares, determined by dividing the redemption price by the greater of Cdn. $3.00 and 95% of the Current Market Price at the date of redemption. On and after July 1, 2001, the redemption may be effected by the issuance of Common shares or payment of a cash amount.

In the event of the liquidation, dissolution or winding up of the Company or other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of the Series C Preferred shares shall be entitled to receive the redemption price before any amounts are paid to the holders of Common shares or any other class of shares ranking junior to the Series C Preferred shares.

In March 1999, the Company deferred the quarterly dividend payment on the Series C Preferred shares (see Note 24).

(D) MANAGEMENT EQUITY INVESTMENT PLAN ("MEIP") 4,250,000 Common shares of the Company were reserved upon adoption by the Company of the MEIP on June 15, 1994. Senior Exchangeable Debentures amounting to $127,670,000 were issued by LGII to a wholly-owned subsidiary of LGII formed to act as agent for the MEIP. The Debentures are due July 15, 2001 and bear interest at floating rates. Each $300.40 of principal amount of Debentures will be exchangeable for one Convertible First Preferred share, Series B of the Company, each of which will be convertible into ten Common shares of the Company. As part of the MEIP, the present participants paid $2,869,000 (1997 — $3,281,000) for option rights to acquire $57,382,000 (1997 — $65,613,000) of Debentures exercisable as to 50% in 1999, 25% in 2000 and 25% in 2001. If an option expires unexercised, the participant will receive a refund without interest of the amount paid to acquire such option right. In addition, the former Chairman paid $2,253,000 for the right and obligation to acquire $45,060,000 of Debentures with the same exercise dates.

(E) SHAREHOLDER PROTECTION RIGHTS PLAN The Company has in place a Shareholder Protection Rights Plan (the "Plan"), which is meant to discourage unfair takeover bid tactics and to give the Board of Directors time, if there is an unsolicited bid, to pursue alternatives to maximize shareholder value. To preserve the shareholders' right to consider takeover bids on a fully-informed basis, the Plan provides that a bidder's position may be substantially diluted if it does not make either a "permitted bid" directly to all shareholders or negotiate with the Board for a waiver of the Plan's provisions. The Plan expires on April 20, 2000.

Under the Plan, each Common shareholder is entitled to receive one right in certain situations. The rights however will not trade separately from the Common shares unless a takeover bid is announced or someone, excluding "Grandfathered Persons," acquires 20% of the Common shares. To the Company's knowledge, only Raymond L. Loewen and Anne Loewen are Grandfathered Persons.

The rights issued to Common shareholders under the Plan entitle the holder, upon the occurrence of certain triggering events, to acquire Common shares in the Company at a 50% discount to the market. Triggering events include the acquisition of 20% or more of the Common shares in a transaction not approved by the Board of Directors. However, the rights are not triggered by certain permitted bids that are made to all holders of Common shares and that are approved by a majority vote of independent shareholders.

By creating the potential for substantial dilution of an unfair bidder's position, the Plan encourages an acquirer to proceed by way of a permitted bid or to approach the Board with a view to negotiation. The

Plan's permitted bid provision allows bidders to take bids directly to all the shareholders. The Plan thus preserves the shareholder's right to consider such bids on a fully-informed basis. The Company, at the time of the adoption of the Plan, was not aware of any pending or threatened takeover bid for the Company.

There are exceptions to the Plan to permit the acquisition of shares by (i) persons who held more than 20% of the Common shares on April 20, 1990, subject to certain restrictions, and (ii) registered pension plans whose governing legislation prohibits them from holding more than 30% and who are acquiring the Common shares independently for investment.

(F) STOCK OPTION PLANS The Company has separate fixed stock option plans for its United States and Canadian employees which enable the Company to grant options to its employees and directors. The option plans are administered by the Compensation Committee of the Company's Board of Directors. Each participant enters into an option agreement which sets forth, among other things, the number of options granted, the exercise price and the vesting conditions of the options. The exercise price of an option may not be less than the market price of the Company's stock on the trading day immediately prior to the grant date and in no event may an option terminate later than ten years after the grant date of such option.

A summary status of the Company's fixed stock option plans and changes during the two years ended December 31, 1998, are as follows:

	1998		1997	
STOCK OPTIONS	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding beginning of year	5,781,704	$26	4,417,517	$25
Options granted	1,139,365	18	1,639,408	30
Options exercised	(58,094)	22	(175,641)	23
Options cancelled	(2,293,902)	21	(99,580)	31
Outstanding end of year	4,569,073	$26	5,781,704	$26
Options exercisable at end of year	2,272,916		3,043,129	

The following table summarizes information about the Company's fixed stock options outstanding at December 31, 1998:

OPTIONS OUTSTANDING	NUMBER OUTSTANDING AT DECEMBER 31, 1998	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)	WEIGHTED AVERAGE EXERCISE PRICE
Range of exercise prices			
$ 5.50 - $22.28	794,950	7.3	$13
22.29 - 27.85	1,686,489	7.6	26
27.86 - 33.42	1,822,134	7.4	30
33.43 - 45.00	265,500	7.3	36
	4,569,073	7.5	$26

OPTIONS EXERCISABLE	NUMBER OUTSTANDING AT DECEMBER 31, 1998	WEIGHTED AVERAGE EXERCISE PRICE
Range of exercise prices		
$ 5.50 - $22.28	349,950	$17
22.29 - 27.85	993,924	26
27.86 - 33.42	802,534	29
33.43 - 45.00	126,508	36
	2,272,916	$26

NOTE 12. FOREIGN EXCHANGE ADJUSTMENT

The foreign exchange adjustment account represents the net changes due to exchange rate fluctuations in the equivalent United States dollar book values of the Company's net investments in self-sustaining non-United States operations since their respective dates of acquisition.

NOTE 13. LEGAL CONTINGENCIES

FELDHEIM ET AL. V. SI-SIFH CORP. ET AL. AND DUFFY ET AL. V. SI-SIFH CORP ET AL.

Two complaints were filed in 1997 on behalf of individuals who claim damages in connection with funeral insurance policies allegedly issued to them by insurance companies owned, directly or indirectly, by S.I. Acquisition Associates, L.P. ("S.I."). The Company acquired the assets but not the stock of S.I. in March 1996. In January 1997, Elmer C. Feldheim and four other individuals filed a lawsuit on behalf of themselves and a class of similarly situated individuals and/or entities against SI-SIFH Corp., SI-SI Insurance Company, Inc., Loewen Louisiana Holdings, Inc., and LGII in the Parish of Jefferson, State of Louisiana. Plaintiffs seek a class action. SI-SIFH Corp. and SI-SI Insurance Company, Inc. are affiliates of S.I.

In June 1997, Lloyd Duffy, Sr. and four other individuals filed a lawsuit on behalf of themselves and a class of similarly situated individuals and/or entities against SI-SIFH Corp., SI-SI Insurance Company, Inc., Loewen Louisiana Holdings, Inc., and LGII in the Parish of Orleans, State of Louisiana. Plaintiffs seek a class action. The *Duffy* complaint was filed by the same lawyers who filed the complaint in the *Feldheim* case, and is a virtually identical copy of the *Feldheim* complaint. The *Duffy* case is pending in the trial court and, as of the date hereof, no discovery has taken place.

The *Feldheim* and *Duffy* plaintiffs allegedly hold or held funeral insurance policies issued by insurance companies owned, directly or indirectly, by the defendants. The plaintiffs allege that (i) the defendants failed to provide the funeral services purchased with the policies by, among other things, offering a casket of inferior quality upon presentation of a policy, and (ii) in connection with the sale of the insurance policy, the insurance companies negligently or fraudulently represented and interpreted the scope and terms of the policies and omitted to provide material information regarding the policy benefits and limitations. Plaintiffs also alleged unfair trade practices in violation of Louisiana's trade practices laws.

Plaintiffs' petitions seek damages, penalties and attorneys fees. Louisiana law prohibits plaintiffs from alleging specific amounts of damages. Plaintiffs also seek a declaratory judgment compelling defendants to honor the policies.

On June 13, 1997, the district court in Jefferson Parish dismissed the *Feldheim* plaintiffs' claim to a class action, and plaintiffs appealed. Briefing of the appeal was completed in December 1997, and oral argument was held on January 15, 1998. On June 30, 1998, the Louisiana Fifth Circuit Court of Appeal affirmed the dismissal of the *Feldheim* plaintiffs' class-action claims except as to a claim by "Sub Class B" plaintiffs (the proposed class of current policyholders who are seeking a declaratory judgment). The appellate court found that the trial court's opinion did not consider the validity of class treatment for the "Sub Class B" plaintiffs' claim for a declaratory judgment when it dismissed plaintiffs' class-action claims, and it remanded the case to the trial court for a hearing on that issue. On September 22, 1998, the trial court ruled that the claim could not go forward as a class action, and granted the exception of no cause of action as to Count IV, sub-class B. On October 20, 1998, plaintiffs noticed a suspensive appeal to the

Louisiana Fifth Circuit Court of Appeal from this ruling. No order granting the suspensive appeal has been signed by the trial court and the matter has not been filed with the Court of Appeal. To date, plaintiffs have taken no further action in connection with this filing.

On August 26, 1998, defendants sought dismissal of all of plaintiffs' remaining individual claims in *Feldheim*. The trial court has not yet ruled on that request.

On September 21, 1998, plaintiffs in *Feldheim* filed an "Amended Petition for Attorneys Fees," which contends that the plaintiffs' lawyers are entitled to an unspecified sum of attorneys' fees. Defendants will respond shortly to that amended petition.

As of the date hereof, no discovery has taken place.

On April 17, 1998 the trial court in the *Duffy* lawsuit declined to grant the defendants' exception seeking to dismiss the plaintiffs' class action allegations on the face of the pleadings. Instead, the court deferred ruling on those issues until the hearing on the class action issues, and the court indicated it would permit some discovery. On April 23, 1998 the defendants filed a Notice of Intent to Seek Supervisory Writs with the Court of Appeal from the trial court's April 17, 1998 judgment, and the trial court granted the defendants' motion for a stay of all proceedings pending a ruling by the Court of Appeal on the supervisory writ application. The defendants filed their Application for Supervisory Writs with the Louisiana Fourth Circuit Court of Appeal on June 5, 1998. On July 16, 1998, the trial court lifted its previously entered stay of all proceedings in this case; defendants have filed a motion requesting that the trial court reinstitute its stay.

On January 6, 1999, the Fourth Circuit Court of Appeal granted supervisory writs, reversed the trial court judgment overruling the exception of *res judicata*, maintained the exception of *res judicata* and dismissed the action. On February 5, 1999 the *Duffy* plaintiffs filed an application for writ of certiorari with the Louisiana Supreme Court. The Company has filed an opposition to the application.

The Company has determined that it is not possible at this time to predict the final outcome of these legal proceedings, including whether a class will be certified, and that it is not possible to establish a reasonable estimate of possible damages, if any, or reasonably to estimate the range of possible damages that may be awarded to plaintiffs. Accordingly, no provision with respect to this lawsuit has been made in the Company's consolidated financial statements.

LUENING, ET AL. V. SI-SIFH CORP., ET AL. In June 1998, Warren S. Luening and four other individuals filed a lawsuit on behalf of themselves and a class of similarly situated individuals and/or entities against SI-SIFH Corp, SI-SI Insurance Company, Inc., Loewen Louisiana Holdings, Inc., and LGII in the Parish of St. Bernard, State of Louisiana. Plaintiffs seek a class action. Defendants in this case are the same entities against whom complaints were filed in Jefferson Parish, Louisiana (the *Feldheim* case) and in Orleans Parish, Louisiana (the *Duffy* case), and, aside from the addition of local counsel in St. Bernard Parish, the same lawyers who filed the *Feldheim* and *Duffy* complaints filed the *Luening* complaint.

Plaintiffs allegedly hold and held funeral insurance policies issued by insurance companies owned, directly or indirectly, by the defendants. Plaintiffs allege that the defendants failed to provide the funeral services purchased with policies by, among other things, (i) charging them for certain funeral services, including the services of a funeral director and staff, a funeral ceremony, care of the deceased, automotive services and a casket, even though these services were allegedly covered by their policies, and (ii) unjustly enriching themselves through the payment of services allegedly covered under the plaintiffs' policies, and

the plaintiffs are therefore entitled to restitution of those payments. Plaintiffs' complaint seeks compensatory and nonpecuniary damages and attorneys' fees. Louisiana law prohibits plaintiffs from alleging specific amounts of damages in their complaint.

On October 22, 1998, plaintiffs in *Luening* filed a "First Amended Petition for Damages." In response to the First Amended Petition, on October 19, 1998 defendants removed the *Luening* case to federal court on diversity-of-citizenship grounds. The federal court subsequently remanded the case to state court. As of the date hereof, no discovery has taken place.

On January 29, 1999, the state court heard argument on the plaintiffs' motion to compel discovery and the Company's exceptions of venue and *res judicata*. On February 3, 1999, the court denied both exceptions and granted the motion to compel discovery, ruling that the dismissal of the class action claims in the *Feldheim* and *Duffy* cases did not operate to bar this particular sub-class of potential plaintiffs. On February 26, 1999, the Company filed supervisory writs on these rulings, and requested a stay of the discovery ruling pending a decision on the writ application. On March 1, 1999, the Fourth Circuit Court of Appeals stayed all further legal proceedings and discovery in the trial court and ordered the plaintiffs to respond to the Company's writ application on an expedited basis. The Fourth Circuit granted the Company's writ application on March 25, 1999, finding that under the *res judicata* doctrine as stated in the Fourth Circuit's *Duffy* decision, relitigation of the plaintiffs' class action claims was forever barred in Louisiana courts by denial of the class certification in the *Feldheim* case. Accordingly, the Fourth Circuit reversed the trial court's denial of the Company's *res judicata* exception, while recognizing that individual plaintiffs' claims could proceed in St. Bernard Parish. It also remanded the case to the trial court for a hearing on the plaintiffs' motion to compel discovery, but it instructed that any discovery requests that are not related to the individual plaintiffs' claims should be denied.

On March 29, 1999 the *Luening* plaintiffs filed an application for writ of certiorari with the Louisiana Supreme Court, and asked that the writ application be consolidated with the application for writ of certiorari filed by the *Duffy* plaintiffs. The Company intends to file an opposition to the application.

The Company has determined that it is not possible to predict the final outcome of this legal proceeding, including whether a class will be certified, and it is not possible to establish a reasonable estimate of possible damages, if any, or reasonably to estimate the range of possible damages that may be awarded to plaintiffs. Accordingly, no provision with respect to this lawsuit has been made in the Company's consolidated financial statements.

THE LOEWEN GROUP INC. ET AL. V. THE UNITED STATES OF AMERICA On October 30, 1998, Loewen and an affiliate filed a claim against the United States government for damages under the arbitration provisions of the North American Free Trade Agreement ("NAFTA"). The plaintiffs contend that they were damaged as a result of breaches by the United States of its obligations under NAFTA in connection with certain litigation in the State of Mississippi entitled *O'Keefe v. The Loewen Group Inc.* Specifically, the plaintiffs allege that they were subjected to discrimination, denial of the minimum standard of treatment guaranteed by NAFTA and uncompensated expropriation, all in violation of NAFTA. The Company has determined that it is not possible at this time to predict the final outcome of this proceeding or to establish a reasonable estimate of the damages, if any, that may be awarded to the Company.

SECURITIES CLASS ACTIONS Since December 1998 Loewen has been served with various related lawsuits filed in the United States District Courts for the Eastern District of Pennsylvania and for the Eastern

District of New York. Raymond L. Loewen, the former Chairman and Chief Executive Officer, and certain officers and directors have been named as defendants in some of the suits. All but one of these lawsuits were filed as purported class actions on behalf of persons or entities that purchased Loewen common shares during five different time periods ranging from November 3, 1996 through January 14, 1999. LGII and Loewen Group Capital, L.P. are named as defendants in two suits (with Loewen, the "Loewen Defendants"). The plaintiffs in the two lawsuits purport to sue on behalf of a class of purchasers of MIPS from March 5, 1997 through January 14, 1999. The MIPS were issued by Loewen Group Capital, L.P.

The complaints generally make allegations concerning, among other things, Loewen's internal controls, accounting practices, financial disclosures and acquisition practices. The Loewen Defendants have filed a motion with the Judicial Panel on Multidistrict Litigation (the "MDL Panel") to consolidation all of the actions for pretrial coordination in the United States District Court for the Eastern District of Pennsylvania. Counsel for the plaintiffs in the actions currently pending in the Eastern District of New York have filed a written stipulation with the MDL Panel agreeing to the transfer of their cases to the Eastern District of Pennsylvania. The MDL Panel has not ruled. By agreement, the Loewen Defendants' responses to all complaints currently are due by April 26, 1999.

The complaints filed in the United States District Court for the Eastern District of Pennsylvania are: *Berg v. The Loewen Group Inc., et al.*, 99-CV-321; *Brody v. Raymond L. Loewen, et al.*, 99-CV-19; *Camuto et al. v. Raymond L. Loewen, et al.*, 99-CV-640; *Gilmore v. Raymond L. Loewen, et al.*, 99-CV-232; *City of Philadelphia v. Loewen Group, Inc. et al.*, 99-CV-1007; *Hill v. The Loewen Group Inc. et al.*, 99-CV-560; *Jamison v. Raymond L. Loewen, et al.*, 99-CV-98; *McGlathery et al. v. Raymond L. Loewen et al.* 99-CV-665 (the *McGlathery* suit was filed on behalf of purchasers of MIPS); *Paskowitz v. Raymond L. Loewen et al.*, 99-CV-91; *Sirota & Sirota Employees Profit Sharing Plan v. The Loewen Group Inc. et al.*, 99-CV-585; *Steiner v. Raymond L. Loewen, et al.*, 98-CV-6740; *Tekiran v. Raymond L. Loewen et al.*, 99-CV-589; and *Travis v. Raymond L. Loewen, et al.*, No. 99-11340.

The complaints filed in the United States District Court for the Eastern District of New York are: *Cohen v. The Loewen Group Inc., et al.*; (the *Cohen* suit was filed on behalf of purchasers of MIPS); CV 99 553; *Collins v. The Loewen Group Inc., et al.*, CV 99 261; *Corradini, et al. v. The Loewen Group Inc. et al.*, CV 99 443; *Gersh v. The Loewen Group Inc.*, CV 98 7983; *Great Neck Capital Appreciation Partners v. Raymond L. Loewen, et al.*, CV 99 164; *Harris v. The Loewen Group Inc., et al.*, CV 99 153; and *Salem v. The Loewen Group Inc., et al.*, CV 99 351.

The Pennsylvania cases have all been assigned to Judge Thomas O'Neill. Plaintiffs have filed a stipulated motion seeking appointment of lead plaintiff, but it is expected that plaintiffs will agree to the appointment of the City of Philadelphia Board of Pensions as lead plaintiff. The Company anticipates that all of the Pennsylvania cases will be consolidated and that, when and if transferred, the New York cases will also be consolidated. It is expected that the lead plaintiff will, when appointed, file a Consolidated and Amended Complaint, to which the defendants will be required to respond.

Additional class action complaints containing similar allegations may be filed in the future.

The Company has determined that it is not possible at this time to predict the final outcome of these proceedings or to establish a reasonable estimate of possible damages, if any, or reasonably to estimate the range of possible damages that may be awarded to the plaintiffs. Accordingly, no provision with respect to these lawsuits has been made in the Company's consolidated financial statements.

F. LEO GROFF, INC. ET AL. V. RESTLAWN MEMORIAL GARDENS, INC. ET AL. This action (No. 96-CV-397, Court of Common Pleas, Erie County, Ohio) was served on the Company and other defendants on September 19, 1996. Plaintiffs allegedly compete with defendants Restlawn Memorial Park Association, Restlawn Memorial Gardens, Inc., and Sinfran, Inc., which were acquired by the Company. Plaintiffs allege thirteen counts, including counts alleging that defendant Restlawn engaged in false and deceptive advertising, misused confidential information, defamed plaintiffs, breached contractual obligations, misappropriated trade secrets, and tortiously interfered with plaintiffs' contractual relationships. Plaintiffs further allege that the Company knew or should have known of Restlawn's conduct and adopted and continued Restlawn's alleged unfair, false, and deceptive practices. Plaintiffs also allege that the defendants conspired to destroy plaintiffs' business and created a "trust in order to prevent competition" in violation of Ohio's antitrust laws. Plaintiffs seek compensatory damages, which are unspecified but alleged to exceed $350,000; punitive damages, which are unspecified but alleged to exceed $300,000; and injunctive relief. Defendants' summary judgment motion was denied as to all but one of plaintiffs' counts. A trial date has been set for July 12, 1999.

The Company has determined that it is not possible at this time to predict the final outcome of these proceedings or to establish a reasonable estimate of possible damages, if any, or reasonably to estimate the range of possible damages that may be awarded to the plaintiffs. Accordingly, no provision with respect to these lawsuits has been made in the Company's consolidated financial statements.

FLANAGAN On December 7, 1998, Honorine T. Flanagan filed a complaint in the Superior Court of the State of California in the County of Los Angeles against Loewen and LGII. To date, only LGII has been served with the complaint. The matter was subsequently removed to federal court based on diversity jurisdiction, and it is now pending in the United States District Court in the Central District of California.

The complaint alleges that the defendants breached an express warranty contained in the Share Purchase Agreement dated July 17, 1995, between LGII and Ms. Flanagan, her husband John Flanagan (now deceased) and the Flanagan Family Trust. The Share Purchase Agreement was made in connection with LGII's purchase of the Flanagans' mausoleum and mortuary business in exchange for approximately $2,000,000 in cash and $7,800,000 of Loewen stock. The Loewen stock was valued at $36.00 per share at the time of the transaction. Ms. Flanagan alleges that LGII knew of claims, suits or other actions which would materially and adversely affect the financial condition of the Company, yet made false statements to the contrary in the Share Purchase Agreement. Ms. Flanagan alleges that two lawsuits pending at the time of the Share Purchase Agreement did eventually have a material adverse impact on the financial condition of the Company and the value of the stock received by Ms. Flanagan in connection with the Share Purchase Agreement.

Ms. Flanagan's complaint also contains causes of action for breach of contract in connection with the Share Purchase Agreement and in connection with employment and consulting agreements entered into at the time of the Share Purchase Agreement. Additionally, Ms. Flanagan alleges causes of action for intentional and negligent misrepresentation and declaratory relief.

Ms. Flanagan estimates that her damages as a result of the alleged breaches and misrepresentations are not less than $5,000,000. This amount is based on her claim that the shares she received were represented to have a value of $7,800,000 at the time of the agreement, and at the time the complaint was filed those shares had a value that was approximately one third of the original represented value. Her

claimed damages may change as the price of Loewen's common shares fluctuates. Further, Ms. Flanagan seeks punitive damages in an unspecified sum. On the declaratory relief cause of action, Ms. Flanagan seeks a declaration that she is to be reimbursed for her losses pursuant to the indemnity provision contained in the Share Purchase Agreement. She also seeks a declaration that until she is indemnified for her losses she is not obligated to transfer property that pursuant to the Agreement LGII has the option to purchase for a specified price pursuant to the Share Purchase Agreement.

The Company has determined that it is not possible at this time to predict the final outcome of this proceeding or to establish a reasonable estimate of possible damages, if any, or reasonably to estimate the range of possible damages that may be awarded to the plaintiff. Accordingly, no provision with respect to this lawsuit has been made in the Company's consolidated financial statements.

OTHER The Company is a party to other legal proceedings in the ordinary course of its business but does not expect the outcome of any other proceedings, individually or in the aggregate, to have a material adverse effect on the Company's financial position, results of operation or liquidity.

NOTE 14. RESTRUCTURING COSTS

During 1997, the Company recorded pre-tax charges of $33,400,000 ($21,500,000 after tax), for restructuring associated with the Company's efforts to more fully integrate its field and administrative operations and improve long-term financial performance. The restructuring charges primarily consisted of $19,400,000 related to the severance of approximately 545 employees in operating locations where consolidation and clustering synergies were not being achieved, $7,500,000 associated with the closure of the Company's Covington, Kentucky corporate office and $6,000,000 of asset write-downs related to realignment or elimination of under-performing locations.

Actual severance paid, including to the Covington office employees, at December 31, 1997 was $15,900,000. The remaining liability for severance of $5,200,000, which primarily relates to benefit or salary continuance arrangements, was fully extinguished in 1998.

NOTE 15. IMPAIRMENT OF LONG-LIVED ASSETS

Due to severe liquidity constraints and the need to generate cash in late 1998, the Company identified certain properties which it would consider selling at their fair value.

On March 31, 1999 one group of properties consisting of 124 cemeteries and three funeral homes was sold for gross proceeds of $193,000,000 (see Notes 1 and 24). Two smaller groups of properties are considered as probable for sale.

The Company has recorded a pre-tax impairment loss of $333,900,000 in 1998 on individual properties contained in the above groups. In calculating the impairment loss, the Company has used estimated cash flow from operations and estimated cash proceeds on the sale of these properties. The impairment loss has reduced cemetery property by $319,300,000, property and equipment by $4,000,000 and names and reputations by $10,600,000. The impairment loss is based on management estimates and as a result, actual results could differ significantly from these estimates.

Although the Company intends to consummate additional asset sales, it is not committed to sell and has not identified any other properties for which sale is probable, other than noted above. As a result, no additional impairment losses have been recognized since future sales of other properties are not determinable. Should additional properties be sold, losses, if any, could be small or significant depending upon the type of property, location, cash flow and prevailing market conditions.

During 1997, the Company recorded a charge to general and administrative expenses for an impairment loss of $12,600,000, of which $6,400,000 was non-cash, related to a write down of certain under-performing assets. The impaired assets included $9,400,000 related to the termination of non-competition agreements in markets where restrictive covenants no longer have value to the Company and $3,200,000 of fixed assets and software costs related to the streamlining of general and administrative functions and the change in the Company's operating strategy.

NOTE 16. COMMITMENTS AND CONTINGENCIES

(A) LEASES At December 31, 1998, the Company was committed to operating lease payments for premises, aircraft, automobiles and office equipment in the following approximate amounts:

	TOTAL
1999	$18,952
2000	15,500
2001	11,808
2002	10,086
2003	8,087
Thereafter	47,783

Total rent expense for each of the years in the three year period ended December 31, 1998 was $16,849,000, $18,268,000 and $12,626,000, respectively.

(B) COVENANTS NOT TO COMPETE In connection with various acquisitions, the Company has entered into non-competition agreements ("covenants not to compete") with certain key management personnel of operations acquired. The Company's payments under the agreements may be made at closing or over future periods and are expensed over the terms of the specific contracts. At December 31, 1998, the agreements in place will result in future payments in the following approximate amounts:

	TOTAL
1999	$13,806
2000	14,472
2001	11,636
2002	10,560
2003	8,928
Thereafter	28,416

(C) MANAGEMENT EQUITY INVESTMENT PLAN GUARANTEE The Company has guaranteed indebtedness of certain participants of the 1994 Management Equity Investment Plan aggregating $3,700,000 (1997 — $3,500,000). The guarantee exists until the termination of the Management Equity Investment Plan on July 15, 2001.

(D) ENVIRONMENTAL CONTINGENCIES AND LIABILITIES The Company's operations are subject to numerous environmental laws, regulations and guidelines adopted by various governmental authorities in the jurisdictions in which the Company operates. Liabilities are recorded when environmental liabilities are either known or considered probable and can be reasonably estimated. The Company's policies are designed to control environmental risk upon acquisition through extensive due diligence and corrective measures taken prior to and after acquisition. Management endeavors to ensure that environmental issues are identified and addressed in advance of acquisition or are covered by an indemnity by the seller or an offset to the purchase price. On a continuing basis, management assesses and evaluates environmental risk and, when necessary, conducts appropriate corrective measures. The Company provides for environmental liabilities using its best estimates. Actual environmental liabilities could differ significantly from these estimates.

(E) EXECUTIVE SEVERANCE AGREEMENTS The Company has executed severance agreements with certain key executives and managers. Under the severance agreements, if there is a change in control of the Company, the executive or manager becomes entitled to severance pay amounting to one to three years compensation, and certain other benefits.

(F) CONTINGENCY RELATED TO POTENTIAL SALE OF ADDITIONAL PROPERTIES The Company has identified and is implementing strategies that will generate cash flow and improve its financial position. Such strategies include further asset sales, such as the sale of 124 cemeteries and three funeral homes completed on March 31, 1999 for gross proceeds of $193,000,000. The Company has two smaller groups of properties which are considered probable for sale. The Company has recorded a pre-tax impairment loss of $333,900,000 in 1998 on individual properties contained in the above groups.

Although the Company intends to consummate additional asset sales, it is not committed to sell and has not identified any other properties for which sale is probable, other than noted above. As a result, no additional impairment losses have been recognized since future sales of other properties are not determinable. Should additional properties be sold, losses, if any, could be small or significant depending upon the type of property, location, cash flow and prevailing market conditions.

(G) CONTINGENCY RELATED TO POTENTIAL PURCHASE OF INVESTMENTS The Company has identified and accrued for contingent losses arising from the exercise of the Put/Call Agreements in connection with its investments in Prime and Rose Hills (see Note 5).

(H) CONTINGENCY RELATED TO PATS SENIOR NOTES The PATS senior notes aggregating $300,000,000 are held by a trust for the benefit of the holders of the pass-through asset trust securities due October 1, 1999. The trust has a put option that entitles the trust to redeem the PATS senior notes on October 1, 1999 to refund the repayment of the pass-through asset trust securities under circumstances where no funding is tendered pursuant to a competitive bidding process. If the put option is exercised, the Company is obligated to pay the trust for any loss with respect of an interest rate option based on a 10 year U.S. treasury rate of 6.05% on October 1, 1999. At December 31, 1998, the option value was $29,300,000. The option value will change based on changes in the 10 year U.S. treasury rate.

NOTE 17. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Company's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to efforts of customers, suppliers, or other third parties, will be fully resolved.

NOTE 18. RETIREMENT PLANS

The Company has a defined contribution retirement plan covering substantially all United States employees. There are no required future contributions under this plan in respect of past service. The Company has a 401(K) Retirement Savings Plan for United States employees who may defer between 2% and 15% of their compensation. The Company will match 100% of employee contributions to a maximum of 2% of employees' eligible compensation.

The Company has a Registered Retirement Savings Plan for Canadian employees who may contribute 3% of their compensation which is matched by an equal contribution to the plan by the Company on behalf of employees. There are no required future contributions under these plans in respect of past service.

The total expense for retirement plans for the three years ended December 31, 1998 was $3,271,000, $3,222,000 and $2,318,000, respectively.

NOTE 19. INCOME TAXES

(A) EFFECTIVE TAX RATE The Company's effective income tax rate is derived as follows:

	1998	1997 (Restated — Note 3)	1996 (Restated — Note 3)
Combined Canadian federal and provincial income tax rate	(45.5)	45.5	45.5
Non-deductible costs of hostile takeover proposal	—	—	7.9
Non-deductible amortization of goodwill arising from acquisitions	1.5	11.9	4.9
Non-deductible restructuring and other charges	0.2	8.7	—
Equity and other earnings of associated companies at lower rates	(0.3)	(11.6)	(1.8)
Change in valuation allowance on future tax assets	21.7	19.0	1.4
Foreign income taxed at lower rates and other taxes not based on income	(1.2)	(73.1)	(31.8)
Other	2.1	1.4	0.1
	(21.5)	1.8	26.2

(B) FUTURE TAX ASSETS AND LIABILITIES

	1998	1997 (Restated — Note 3)
Future tax liabilities		
Long-term receivables	$ 60,384	$ 25,969
Cemetery property	303,003	374,759
Property and equipment	61,204	65,465
Investments	—	4,264
Insurance policy liabilities	18,905	7,814
Other	24,522	11,130
Total future tax liabilities	468,018	489,401
Future tax assets		
Accounts payable and accrued liabilities	$ 17,340	$ 8,249
Cemetery long-term liabilities	34,649	34,672
Insurance assets	15,149	3,517
Legal settlements	15,517	15,911
Interest	150,614	82,349
Unrealized losses on investments in Prime and Rose Hills	119,994	—
Deferred costs related to prearranged funeral services	7,198	7,691
Share issue costs	8,414	13,099
Operating loss carryforwards	63,050	22,887
Other	16,748	10,457
Total future tax assets before valuation allowance	448,673	198,832
Valuation allowance	(177,591)	(11,576)
Total future tax assets after valuation allowance	271,082	187,256
Net future tax liabilities	$ 196,936	$ 302,145

Although realization of the Company's deferred tax assets is not assured, management believes that it is more likely than not that reversals of future tax liabilities provide sufficient taxable income to realize the future tax assets. The Company's ability to realize its future tax assets is based on several additional factors, including tax planning strategies to realize the benefit of loss carryforwards and other tax assets in the amount of approximately $12,500,000. The extent of valuation allowance required would likely be adversely affected by future sales of subsidiaries. It is reasonably possible that these estimates could change in the near term due to matters such as the timing and manner of reversals of future tax liabilities, sales of operations, and future income. During the year ended December 31, 1998, the Company increased its valuation allowance by approximately $166,015,000 (1997 — $8,077,000).

NOTE 20. CHANGES IN OTHER NON-CASH BALANCES

Supplemental disclosures related to statements of cash flows consist of the following:

	1998	1997 (Restated — Note 3)	1996 (Restated — Note 3)
(Increase) decrease in assets			
Receivables, net of allowances	$ 18,516	$ 3,365	$ (32,050)
Inventories	671	(1,371)	(2,689)
Prepaid expenses	2,630	892	(2,670)
Amounts receivable from cemetery merchandise trusts	(98,121)	(89,944)	(6,672)
Installment contracts, net of allowances	6,481	(134,382)	(64,652)
Cemetery property	(46,081)	(34,924)	13,974
Deferred charges	(33,062)	(42,497)	(28,684)
Other assets	12,753	4,405	(21,844)
Increase (decrease) in liabilities			
Accrued settlements	—	—	(53,000)
Accounts payable and accrued liabilities	14,908	39,746	20,517
Other liabilities	8,635	13,887	5,417
Cemetery long-term liabilities	(15,046)	22,268	441
Insurance policy liabilities	22,935	313	2,332
Other changes in non-cash balances	14,534	1,848	2,142
	$ (90,247)	$ (216,394)	$ (167,438)
Supplemental information			
Interest paid	$ 174,628	$ 103,799	$ 91,000
Taxes paid	15,226	44,282	21,180
Bad debt expense	122,250	58,392	34,750
Non-cash investing and financing activities			
Non-cash debt and share consideration on acquisitions	$ 25,395	$ 64,881	$ 62,711
Note receivable from sale of subsidiaries	—	15,725	—
Common shares and debt issued for legal settlements	—	—	112,000
Properties contributed to Rose Hills including unrealized gain thereon		—	23,000

NOTE 21. SUPPLEMENTARY FINANCIAL INFORMATION

A summary of certain balance sheet accounts as at December 31, is as follows:

	1998	1997 (Restated — Note 3)
Receivables, net of allowances		
Trade accounts	$ 101,051	$ 96,529
Installment contracts	158,884	132,701
Other	59,213	72,120
Unearned finance income	(30,404)	(17,475)
Allowances for contract cancellations and doubtful accounts	(67,065)	(32,869)
	$ 221,679	$ 251,006
Long-term receivables, net of allowances		
Notes receivable	$ 11,999	$ 12,547
Amounts receivable from cemetery merchandise trusts	392,148	297,739
Installment contracts	353,054	305,144
Unearned finance income	(53,217)	(41,655)
Allowances for contract cancellations and doubtful accounts	(56,892)	(20,112)
	$ 647,092	$ 553,663
Cemetery property		
Developed land and lawn crypts	$ 216,029	$ 195,597
Undeveloped land	887,161	1,058,989
Mausoleums	132,657	78,401
	$ 1,235,847	$ 1,332,987
Property and equipment		
Land	$ 174,366	$ 171,060
Buildings and improvements	547,218	504,722
Automobiles	80,940	75,970
Furniture, fixtures and equipment	154,182	138,534
Computer hardware and software	41,900	34,486
Leasehold improvements	16,082	14,363
Accumulated depreciation and amortization	(188,703)	(141,957)
	$ 825,985	$ 797,178
Names and reputations		
Names and reputations	$ 775,865	$ 672,613
Covenants not to compete	81,855	71,666
Accumulated amortization	(109,055)	(75,701)
	$ 748,665	$ 668,578
Other assets		
Deferred debt issue costs	$ 23,709	$ 33,182
Deferred direct obtaining costs	102,632	83,714
Cemetery management contracts	13,413	—
Other	21,364	39,740
	$ 161,118	$ 156,636

	1998	1997 (Restated — Note 3)
Accounts payable and accrued liabilities		
Trade payables	$ 46,210	$ 42,447
Interest	38,686	38,413
Dividends	2,154	7,391
Insurance, property and business taxes	6,353	7,013
Other	76,731	64,944
	$ 170,134	$ 160,208
Other liabilities		
Cemetery long-term liabilities	$ 211,647	$ 219,663
Accrual for contingent loss (Note 5(a) and (b))	128,333	—
Covenants not to compete	20,540	17,434
Liabilities of joint venture (Note 5(c))	—	39,660
Regional partnership liabilities	9,971	12,145
Participants' deposits in MEIP (Note 11(d))	5,120	5,508
Other	23,693	14,499
	$ 399,304	$ 308,909

NOTE 22. SEGMENTED INFORMATION

The Company has adopted Section 1701, Segment Disclosures, of the Handbook of the Canadian Institute of Chartered Accountants, which changes the way the Company reports information about its operating segments. The information in 1997 and 1996 has been restated to conform to the 1998 presentation.

The Company's reportable segments are comprised of the three businesses it operates, each of which offers different products and services: funeral homes, cemeteries and insurance.

The funeral homes offer a full range of funeral services, encompassing the collection of remains, registration of death, professional embalming, use of funeral home facilities, sale of caskets and other merchandise, and transportation to a place of worship, funeral chapel, cemetery or crematorium. In addition to providing at-need funeral services, the Company provides advance funeral planning services to it customers.

The cemeteries assist families in making burial arrangements and offer a complete line of cemetery products (including a selection of burial spaces, burial vaults, lawn crypts, caskets, memorials, niches and mausoleum crypts), the opening and closing of graves and cremation services. The majority of cemetery revenue is from pre-need sales.

The insurance companies sell a variety of life insurance products, primarily to fund funeral services purchased through a pre-need arrangement. The funeral home companies sell insurance contracts on behalf of the Company's insurance operations for which they receive commission revenue. In 1998, the inter-company commissions amounted to $3,717,000 and were eliminated in the Company's consolidated financial statements.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 2). The Company sells primarily to external customers, though any intersegment sales or transfers occur at market price. The Company evaluates performance based on earnings from operations of the respective businesses.

	FUNERAL	CEMETERY	INSURANCE	OTHER	CONSOLIDATED
Revenue earned from external sales					
1998	$ 631,221	$ 408,497	$ 96,516	$ —	$ 1,136,234
1997	602,112	422,010	89,977	—	1,114,099
1996	549,833	286,652	71,900	—	908,385
Earnings (loss) from operations					
1998	$ 125,242	$ (301,789)	$ 16,472	$ (103,891)	$ (263,966)
1997	147,730	100,638	16,508	(112,745)	152,131
1996	157,461	76,068	17,149	(46,008)	204,670
Investment revenue (included in earnings (loss) from operations)					
1998	$ 3,391	$ 34,432	$ 21,351	$ 1,774	$ 60,948
1997	5,560	29,197	23,519	335	58,611
1996	3,271	15,836	16,615	1,249	36,971
Depreciation and amortization					
1998	$ 62,892	$ 11,384	$ 31	$ 14,206	$ 88,513
1997	51,085	7,820	36	6,437	65,378
1996	45,146	4,237	42	3,722	53,147
Total assets					
1998	$ 2,033,047	$ 2,202,038	$ 276,098	$ 162,725	$ 4,673,908
1997	1,963,099	2,124,409	331,754	371,425	4,790,687
1996	1,651,186	1,366,399	329,134	372,015	3,718,734
Capital expenditures					
1998	$ 74,681	$ 26,370	$ 420	$ 6,513	$ 107,984
1997	108,691	53,023	208	11,157	173,079
1996	136,220	36,782	1,274	9,966	184,242

The following table reconciles earnings from operations of reportable segments to earnings (loss) before income taxes and identifies the components of "Other" segment earnings from operations:

YEARS ENDED DECEMBER 31	1998	1997	1996
Earnings (loss) from operations of funeral, cemetery and insurance segments	$(160,075)	$ 264,876	$250,678
Other expenses of operations:			
General and administrative expenses	(87,659)	(72,128)	(42,286)
Restructuring costs	—	(33,364)	—
Depreciation and amortization	(14,206)	(6,437)	(3,722)
Other	(2,026)	(816)	—
	(103,891)	(112,745)	(46,008)
Total earnings (loss) from operations	$(263,966)	$ 152,131	$204,670

The following table reconciles total assets of reportable segments and details the components of "Other" segment assets which is mainly comprised of corporate assets:

DECEMBER 31	1998	1997	1996
Total assets of funeral, cemetery and insurance segments	$4,511,183	$4,419,262	$3,346,719
"Other" assets includes:			
Cash	61,012	2,681	(1,319)
Receivables	11,492	41,444	11,487
Prepaid expenses	3,499	3,216	4,599
Long-term receivables, net of allowances	7,753	3,957	2,217
Investments	2,581	224,008	266,228
Property and equipment	33,323	42,198	33,818
Names and reputations	4,358	4,766	5,174
Future income tax assets	10,243	7,849	3,971
Deferred debt issue costs	23,709	33,182	33,199
Other	4,755	8,124	12,641
	162,725	371,425	372,015
Total assets	$4,673,908	$4,790,687	$3,718,734

The Company operates principally in North America. Over 90% of its revenues are earned in the United States, however, the Company also has operations in Canada and the United Kingdom. The following tables depict the revenues earned and the long term assets held in the reportable geographic segments.

YEARS ENDED DECEMBER 31	1998	1997	1996
Revenue			
United States	$1,065,074	$1,048,236	$849,325
Canada	63,979	64,965	58,536
Other	7,181	898	524
	$1,136,234	$1,114,099	$908,385

DECEMBER 31	1998	1997	1996
Property and equipment, names and reputations and cemetery property			
United States	$2,623,497	$2,614,772	$2,001,767
Canada	163,932	171,680	143,156
Other	23,068	12,291	992
	$2,810,497	$2,798,743	$2,145,915

NOTE 23. RELATED PARTY TRANSACTIONS

During 1996, as part of the normal course of operations, the Company chartered a jet aircraft, a motor vessel and a helicopter at competitive rates from companies owned or controlled by the former Chairman of the Company. The total costs of the related party charters amounted to $605,110. In 1996, the Company purchased all of the shares of 476822 B.C. Ltd., which owned the motor vessel, for an effective purchase price of Cdn. $7,860,000. The motor vessel was sold in 1999 (see Note 24). In addition, in 1996 a company owned by the former Chairman of the Company sold the jet aircraft and helicopter to a third party. Subsequently, the Company has leased the jet aircraft and helicopter from the third party at commercially reasonable terms.

As part of the acquisition of Osiris Holding Corporation ("Osiris"), the Company has recorded $14,947,000 as long-term debt at the present value of the total remaining contingent payments of approximately $17,100,000. The Company expected to pay the balance over a five-year period ending in 2001 to the former shareholders of Osiris, two of whom were officers of the Company. Subsequent to year end, the two officers of the Company entered into an agreement with the Company to purchase a number of cemeteries and funeral homes and ended their association with the Company. The balance of the contingent payments were reclassed to current portion of long-term debt as the remaining balance was paid out of the proceeds of the sale in 1999 (see Note 24).

In addition, as part of the acquisition of Shipper Management ("Shipper"), the Company has recorded $4,838,000 as a long-term liability, representing the present value of total remaining contingent payments, payable through 2001, to the former shareholders of Shipper, one of whom is an officer of the Company.

At December 31, 1998, Company officers, directors and employees were indebted to the Company for approximately $10,800,000 (1997 — $9,100,000).

NOTE 24. SUBSEQUENT EVENTS

In February, 1999 the Company sold the motor vessel for proceeds of $4,000,000. The Company recorded an impairment loss of $1,000,000 on the motor vessel in 1998.

On March 8, 1999, the Company deferred payment of the quarterly cash dividend of Cdn $0.375 per share on the Company's 6% Cumulative Redeemable Convertible First Preferred Shares, Series C which would have been payable on April 1, 1999. The Company also deferred payment of dividends on the Company's Cumulative Monthly Income Preferred Securities, Series "A".

On March 31, 1999, the Company completed the sale of 124 cemeteries and three funeral homes to an investor group led by McCown De Leeuw & Co., a private investment firm. Upon completion of the sale the Company received gross proceeds of $193,000,000 resulting in a pre-tax loss of $301,605,000 which was provided for, as an impairment loss, in 1998. The investor group included two former officers of the Company.

On March 31, 1999, the Company completed negotiations with certain lenders resulting in revised lending agreements, including waivers of certain financial covenants at December 31, 1998. As a result, the Company has not had an event of default of certain covenants in its Credit Agreements.

NOTE 25. UNITED STATES ACCOUNTING PRINCIPLES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. These principles differ in the following material respects from those in the United States as summarized below:

(A) EARNINGS (LOSS) AND EARNINGS (LOSS) PER COMMON SHARE

	1998	1997	1996
Earnings (loss)			
Net earnings (loss) in accordance with Canadian GAAP	$(598,969)	$41,810	$65,999
Less effects of differences in accounting for:			
Insurance operations (c)	2,833	1,701	(1,440)
Stock options	(36)	(173)	—
Foreign exchange loss (e)	—	(1,107)	—
Cost of start-up activities (g)	1,915	—	—
Net earnings (loss) before cumulative effect of a change in accounting principle	$(594,257)	$42,231	$64,559
Cumulative effect of adopting SOP 98-5 as of January 1, 1998	(5,000)	—	—
Net earnings (loss) in accordance with United States GAAP	$(599,257)	$42,231	$64,559
Other comprehensive income			
Foreign currency translations			
Unrealized foreign currency gains (losses) arising during the period	116	998	(1,682)
Less: reclassification adjustment for losses included in net income	—	(1,909)	—
Unrealized gains (losses) on securities:			
Unrealized holding gains arising during the period, net of deferred tax expense of $8,354, $5,992, and $1,222, respectively	10,211	7,323	1,494
Less: reclassification adjustment for gains included in net income	(8,486)	(3,044)	(561)
Comprehensive income (loss) in accordance with United States GAAP	$(597,416)	$45,599	$63,810
Earnings (loss) before cumulative effect of change in accounting principle per Common share			
Basic earnings (loss) before cumulative effect of change in accounting principle per Common share	$ (8.15)	$ 0.49	$ 0.98
Diluted earnings (loss) before cumulative effect of change in accounting principle per Common share	$ (8.15)	$ 0.48	$ 0.97

For the year ended December 31, 1998, the earnings per Common share effect of the cumulative effect of the change in accounting principle is $0.07, resulting in basic and diluted loss per Common share of $(8.22).

Under United States GAAP, basic earnings (loss) per Common share, similar to Canadian GAAP, is based on the weighted average number of Common shares outstanding during the year. Diluted earnings

(loss) per Common share is based on the weighted average number of Common shares outstanding during the year plus common stock equivalents. The computation of basic and diluted earnings (loss) before cumulative effect of change in accounting principle per Common share is as follows:

	1998	1997	1996
Basic			
Net earnings (loss) before cumulative effect of change in accounting principle	$(594,257)	$42,231	$64,559
Less: Preferred share dividends	8,900	9,533	8,874
Net earnings (loss) before cumulative effect of change in accounting principle attributable to Common shareholders	$(603,157)	$32,698	$55,685
Weighted average number of shares outstanding	73,989	67,313	56,743
Basic earnings (loss) before cumulative effect of change in accounting principle per Common share	$ (8.15)	$ 0.49	$ 0.98
Diluted			
Net earnings (loss) before cumulative effect of change in accounting principle attributable to Common shareholders	$(603,157)	$32,698	$55,685
Add: Effect of dilutive securities other than options	—	—	—
Diluted earnings (loss) before cumulative effect of change in accounting principle	$(603,157)	$32,698	$55,685
Weighted average number of shares outstanding	73,989	67,313	56,743
Add: Incremental shares from conversion of dilutive options	—	926	610
Diluted shares	73,989	68,239	57,353
Diluted earnings (loss) before cumulative effect of change in accounting principle per Common share	$ (8.15)	$ 0.48	$ 0.97

(B) BALANCE SHEET The amounts in the consolidated balance sheet that differ from those reported under Canadian GAAP are as follows:

	DECEMBER 31, 1998		DECEMBER 31, 1997	
	CANADIAN GAAP	UNITED STATES GAAP	CANADIAN GAAP (Restated — Note 3)	UNITED STATES GAAP
Assets				
Receivables, net of allowances	$ 221,679	$ 221,920	$ 251,006	$ 251,006
Long-term receivables, net of allowances	647,092	655,193	553,663	555,472
Investments	3,385	3,385	224,008	184,227
Insurance invested assets	266,661	270,809	305,610	312,073
Other assets	161,118	184,374	156,636	181,840
Liabilities and Shareholders' Equity				
Other liabilities	399,304	394,377	308,909	266,903
Insurance policy liabilities	166,920	196,230	214,492	240,750
Future income tax liabilities	208,939	212,378	309,994	313,016
Common shares	1,274,096	1,300,428	1,271,177	1,297,443
Retained earnings (deficit)	(539,741)	(536,089)	75,624	79,564
Accumulated other comprehensive income:				
Unrealized gains on securities available for sale, net of tax	—	6,937	—	5,212
Foreign exchange adjustment	13,940	(15,057)	13,824	(15,173)

753219 = 1166.24

157146 157146

905441 913365 = 1408.59

(C) INSURANCE OPERATIONS

PRESENT VALUE OF INSURANCE POLICIES Under United States GAAP, the Company recognizes an asset that represents the actuarially-determined present value of the projected future profits of the insurance in-force at dates of acquisition. Canadian GAAP does not recognize such an asset. The asset is being amortized to insurance expense over the estimated life of the insurance in-force at the date of acquisition.

DEFERRED POLICY ACQUISITION COSTS Under United States GAAP, the Company defers costs related to the production of new business, which consist principally of commissions, certain underwriting expenses, and the costs of issuing policies. Deferred acquisition costs are amortized over the expected premium-paying periods of the related policies. Canadian GAAP does not permit deferral of such costs.

INSURANCE POLICY LIABILITIES Insurance policy liabilities, which represent liabilities for future policy benefits, are accounted for under United States GAAP using the net level premium method which involves different actuarial assumptions and methodologies than the policy premium method used for Canadian GAAP. In addition, under Canadian GAAP, all actuarial assumptions are re-evaluated on a periodic basis, resulting in adjustments to insurance policy liabilities and insurance costs and expenses. Under United States GAAP, assumptions established at the time a policy is written are locked in and only revised if it is determined that future experience will worsen from that previously assumed.

(D) UNREALIZED GAINS AND LOSSES Amounts receivable from cemetery merchandise trusts and insurance invested assets are subject to the provisions of Financial Accounting Standards No. 115 ("FAS 115"), "Accounting for Certain Investments in Debt and Equity" under United States GAAP. Under FAS 115, fixed maturity securities which the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost. Fixed maturity securities classified as held-to-maturity were approximately $30,582,000 at December 31, 1998 (1997 — $69,243,000). Debt and equity securities that are held with the objective of trading to generate profits on short-term differences in price are carried at fair value, with changes in fair value reflected in the results of operations. At December 31, 1998, the Company had no securities classified as trading (1997 — $1,380,000). All other fixed maturity and equity securities not classified as either held-to-maturity or trading are classified as available-for-sale and carried at fair value which was approximately $619,913,000 at December 31, 1998 (1997 — $496,922,000). Available-for-sale securities may be sold in response to changes in interest rates and liquidity needs. Unrealized holding gains and losses related to available-for-sale investments, after deducting amounts allocable to income taxes, are reflected as a separate component of stockholders' equity. Unrealized holding gains and losses related to trading investments, after deducting amounts allocable to income taxes, are reflected in earnings.

(E) FOREIGN EXCHANGE LOSS Upon the sale of a Canadian equity investment in 1997, the Company recognized a foreign exchange loss of $802,000 for Canadian GAAP purposes. The foreign exchange loss under United States GAAP was $1,909,000 due to differences in the related foreign exchange adjustment on the balance sheet that arose from the Company's change in reporting currency on January 1, 1994.

(F) STOCK-BASED COMPENSATION The Company follows the disclosure provisions of Statement of Financial Accounting Standards No. 123 ("FAS 123"), "Accounting for Stock-Based Compensation", for United States GAAP purposes.

The Company continues to record compensation expense for United States GAAP purposes following the intrinsic value principles of APB 25 for Accounting for Stock Issued to Employees in accounting for the plans. Under APB 25, no compensation expense has been recognized for its stock-based compensation plans in any of the three years ending December 31, 1998. Had compensation cost been determined based on fair value at the grant dates for awards under those plans consistent with the measurement provisions of FAS 123, net earnings (loss) before cumulative effect of change in accounting principle under United States GAAP would have been $(593,648,000) for the year ended December 31, 1998 (1997 — $35,781,000, 1996 — $58,860,000) and basic and diluted earnings (loss) before cumulative effect of change in accounting principle per Common share would have been $(8.14) and $(8.14), respectively (1997 — $0.39 and $0.38, respectively, 1996 — $0.88 and $0.87, respectively). For these purposes, the fair value of each option is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield nil (1997 — 0.5%, 1996 — 0.5%), expected volatility 29% (1997 — 24%, 1996 — 24%), Canadian risk-free interest rates 4.88% (1997 — 5.24%, 1996 — 5.68%) United States risk-free interest rates 5.11% (1997 — 5.89%, 1996 — 5.57%) and expected average option term of 3.5 years (1997 — 5.0 years, 1996 — 3.4 years). The weighted average fair value of the options granted is $5.51 (1997 — $9.15, 1996 — $6.78) per option.

(G) REPORTING ON THE COSTS OF START-UP ACTIVITIES The AICPA issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" ("SOP 98-5") on April 3, 1998, to be effective for fiscal years beginning after December 15, 1998. SOP 98-5 states that the costs of start-up activities, including organization costs, should be expensed as incurred. The Company has elected early adoption of SOP 98-5 to be effective for the year ended December 31, 1998, for United States GAAP purposes. Pursuant to SOP 98-5, the Company has written off the unamortized costs of start-up activities, which are contained in other assets, as a change in accounting principle.

SOP 98-5 was adopted in the fourth quarter of 1998, and was effective January 1, 1998. The effect on the previously published year to date interim net earnings (loss) and earnings (loss) per Common share would be decreases of approximately $5,000,000 and $0.07, respectively, resulting from the cumulative effect of the adoption of SOP 98-5.

(H) ADVERTISING COSTS Advertising costs were $10,444,000 for the year ended December 31, 1998 (1997 — $9,509,000, 1996 — $8,221,237).

(I) RECENT ACCOUNTING STANDARDS Statement of Financial Accounting Standards No. 133 ("FAS 133") "Accounting for Derivative Instruments and Hedging Activities" is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. FAS 133 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value.

Management has not determined the impact of this recent accounting standard on its consolidated financial statements.

NOTE 26. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current period.

CONSOLIDATED BALANCE SHEETS

Expressed in thousands of U.S. dollars

	FISCAL YEARS ENDED DECEMBER 31			
	1998	1997	1996	1995
		(restated)	(restated)	(restated)
Assets				
Current assets				
Cash and cash equivalents	$ 94,141	$ 36,767	$ 18,059	$ 39,454
Receivables, net of allowances	221,679	251,006	187,617	115,953
Other	43,398	46,026	43,553	35,674
	359,218	333,799	249,229	191,081
Long-term receivables, net of allowances	647,092	553,663	288,579	167,367
Cemetery property	1,235,847	1,332,987	872,783	533,775
Property and equipment	825,985	797,178	686,285	551,965
Names and reputations	748,665	668,578	586,847	439,181
Investments	3,385	224,008	266,228	86,815
Insurance invested assets	266,661	305,610	296,249	97,024
Future income tax assets	12,003	7,849	3,971	0
Prearranged funeral services	413,934	410,379	334,420	245,854
Other assets	161,118	156,636	134,143	66,949
	$4,673,908	$4,790,687	$3,718,734	$2,380,011
Liabilities and Shareholders' Equity				
Current liabilities				
Current indebtedness	$ 66,222	$ —	$ —	$ 38,546
Accounts payable and accrued liabilities	170,134	160,208	114,072	133,058
Long-term debt, current portion	874,123	43,507	79,580	69,671
	1,110,479	203,715	193,652	241,275
Long-term debt, net of current portion	1,393,891	1,750,427	1,416,345	862,625
Other liabilities	399,304	308,909	216,842	138,646
Insurance policy liabilities	166,920	214,492	212,480	84,898
Future income tax liabilities	208,939	309,994	243,378	140,707
Deferred prearranged funeral services revenue	413,934	410,379	334,420	245,854
Preferred securities of subsidiary	75,000	75,000	75,000	75,000
Shareholders' equity				
Share capital	1,274,096	1,271,177	796,431	562,055
Preferred shares	157,146	157,146	157,146	—
Retained earnings (deficit)	(539,741)	75,624	58,305	12,534
Foreign exchange adjustment	13,940	13,824	14,735	16,417
	905,441	1,517,771	1,026,617	591,006
	$4,673,908	$4,790,687	$3,718,734	$2,380,011
Number of funeral homes	1,151	1,070	956	815
Number of cemeteries	550	483	313	179
Number of funeral services	163,000	153,000	142,000	114,000
Number of employees	17,000	16,000	16,000	10,000
Business acquisitions (in millions)	$ 278	$ 547	$ 620	$ 488

FISCAL YEARS ENDED DECEMBER 31

1994	1993	1992	1991	1990	1989	1988
(restated)	(restated)					
$ 15,349	$ 18,167	$ 12,176	$ 16,035	$ 9,706	$ 17,940	$ 3,180
70,547	51,684	37,211	27,451	25,063	10,574	5,882
23,972	20,893	16,297	10,413	7,166	3,875	2,450
109,868	90,744	65,684	53,899	41,935	32,389	11,512
67,895	30,059	11,460	5,725	2,319	—	—
114,861	48,158	24,135	15,939	15,230	3,160	2,859
426,038	346,244	284,654	216,851	159,438	79,417	52,442
349,420	207,196	126,156	87,547	72,982	25,363	17,910
78,269	3,749	1,338	915	921	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
178,982	175,216	146,109	127,086	104,413	49,524	33,343
35,763	19,977	15,575	10,530	6,881	2,845	4,091
$1,361,096	$921,343	$675,111	$518,492	$404,119	$192,698	$122,157
$ —	$ —	$ —	$ —	$ —	$ —	$ —
52,136	42,387	26,719	14,331	19,417	7,093	5,770
45,529	6,572	7,553	6,073	6,088	4,431	2,990
97,665	48,959	34,272	20,404	25,505	11,524	8,760
470,174	334,612	239,162	187,780	150,028	69,851	52,853
84,629	23,120	16,439	9,415	5,956	375	458
—	—	—	—	—	—	—
68,179	39,775	2,812	1,413	385	1,364	1,485
178,982	175,216	146,109	127,086	104,413	49,524	33,343
75,000	—	—	—	—	—	—
282,560	227,968	172,133	139,151	98,031	42,418	11,828
—	—	—	—	—	7,566	7,566
90,507	53,504	53,382	34,651	20,720	11,275	6,414
13,400	18,189	10,802	(1,408)	(919)	(1,199)	(550)
386,467	299,661	236,317	172,394	117,832	60,060	25,258
$1,361,096	$921,343	$675,111	$518,492	$404,119	$192,698	$122,157
641	533	451	365	268	131	98
116	70	38	23	21	7	5
94,000	79,000	64,000	52,000	34,000	22,000	18,000
7,000	5,000	4,000	3,000	2,000	1,000	1,000
$ 266	$ 148	$ 83	$ 69	$ 140	$ 32	$ 31

CONSOLIDATED STATEMENTS OF OPERATIONS

Expressed in thousands of U.S. dollars except per share amounts

	FISCAL YEARS ENDED DECEMBER 31		
	1998	1997	1996
		(restated)	(restated)
Revenue			
Funeral	$ 631,221	$ 602,112	$549,833
Cemetery	408,497	422,010	286,652
Insurance	96,516	89,977	71,900
	1,136,234	1,114,099	908,385
Costs and expenses			
Funeral	407,302	374,191	326,892
Cemetery	357,183	302,965	197,776
Insurance	80,013	73,304	54,709
	844,498	750,460	579,377
	291,736	363,639	329,008
Expenses			
General and administrative	133,289	112,766	71,191
Depreciation and amortization	88,513	65,378	53,147
Asset impairment	333,900	—	—
Restructuring costs	—	33,364	—
	555,702	211,508	124,338
Earnings (loss) from operations	(263,966)	152,131	204,670
Interest on long-term debt	182,305	132,252	93,028
Investment impairment and contingent loss	315,207	—	—
Gain on sale of investment	—	(24,099)	—
Non-recurring unusual items (Note 1)	—	7,675	18,678
Earnings (loss) before undernoted items	(761,478)	36,303	92,964
Dividends on preferred securities of subsidiary	7,088	7,088	7,088
Earnings (loss) before income taxes and undernoted items	(768,566)	29,215	85,876
Income taxes			
Current	23,118	34,152	22,544
Deferred	(187,589)	(33,367)	927
	(164,471)	785	23,471
	(604,095)	28,430	62,405
Equity in earnings of associated companies	5,126	13,380	3,594
Net earnings (loss) for the year	$ (598,969)	$ 41,810	$ 65,999
Basic earnings (loss) per Common share	$ (8.22)	$ 0.48	$ 1.01
Fully diluted earnings (loss) per Common share	$ (8.22)	$ 0.48	$ 1.00
Dividend per Common share	$ 0.100	$ 0.200	$ 0.200
Dividend per Preferred share	$ 1.011	$ 1.083	$ 1.008
Number of Common shares at year-end (in thousands)	74,056	73,911	59,057
Fully diluted weighted average number of Common shares (in thousands)	73,989	67,313	57,415
Common share price at year-end ($Cdn.)	$ 12.50	$ 36.80	$ 53.50
Common share price at year-end ($U.S.)	$ 8.44	$ 25.88	$ 39.13

Note 1 Non-recurring unusual items include the loss on early extinguishment of debt in 1997, costs related to the hostile takeover proposal in 1996 and costs related to legal settlements in 1995.

FISCAL YEARS ENDED DECEMBER 31

1995	1994	1993	1992	1991	1990	1989	1988
(restated)	(restated)	(restated)					
$441,352	$353,904	$275,106	$202,748	$150,943	$ 92,391	$52,856	$35,566
143,577	63,424	27,905	16,159	11,662	8,565	4,427	1,987
13,564	—	—	—	—	—	—	—
598,493	417,328	303,011	218,907	162,605	100,956	57,283	37,553
258,872	210,471	166,782	123,044	90,861	55,237	29,759	20,557
104,612	48,003	21,111	12,155	8,657	5,152	3,152	1,240
10,533	—	—	—	—	—	—	—
374,017	258,474	187,893	135,199	99,518	60,389	32,911	21,797
224,476	158,854	115,118	83,708	63,087	40,567	24,372	15,756
67,652	34,751	28,225	17,086	12,981	7,495	4,278	2,101
39,059	28,443	20,467	15,469	10,579	5,311	2,794	2,166
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
106,711	63,194	48,692	32,555	23,560	12,806	7,072	4,267
117,765	95,660	66,426	51,153	39,527	27,761	17,300	11,489
52,425	35,291	22,530	19,673	15,387	11,479	7,637	4,916
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
184,914	—	—	—	—	—	—	—
(119,574)	60,369	43,896	31,480	24,140	16,282	9,663	6,573
7,088	2,678	—	—	—	—	—	—
(126,662)	57,691	43,896	31,480	24,140	16,282	9,663	6,573
29,379	17,053	12,501	10,571	8,421	5,776	3,798	2,899
(78,991)	766	2,873	1,143	1,294	773	417	253
(49,612)	17,819	15,374	11,714	9,715	6,549	4,215	3,152
(77,050)	39,872	28,522	19,766	14,425	9,733	5,448	3,421
1,446	—	—	—	—	—	—	—
$ (75,604)	$ 39,872	$ 28,522	$ 19,766	$ 14,425	$ 9,733	$ 5,448	$ 3,421
$ (1.67)	$ 1.00	$ 0.78	$ 0.59	$ 0.46	$ 0.39	$ 0.31	$ 0.23
$ (1.67)	$ 1.00	$ 0.77	$ 0.58	$ 0.46	$ 0.38	$ 0.28	$ 0.22
$ 0.050	$ 0.070	$ 0.045	$ 0.032	$ 0.017	$ —	$ —	$ —
$ —	$ —	$ —	$ —	$ —	$ 0.288	$ 0.586	$ 0.327
48,168	41,015	38,647	35,534	32,754	28,391	19,977	12,849
45,291	41,720	38,085	34,644	31,821	25,971	19,865	16,308
$ 34.38	$ 36.75	$ 33.25	$ 19.63	$ 15.63	$ 12.50	$ 9.31	$ 5.31
$ 25.31	$ 26.50	$ 25.38	$ 15.50	$ 13.38	$ 10.63	$ n/a	$ n/a

CONSOLIDATED STATEMENTS OF OPERATIONS - RESTATED

Expressed in thousands of U.S. dollars except per share amounts

1998	FISCAL QUARTERS ENDED (UNAUDITED) MARCH 31	JUNE 30	SEPT 30	DEC 31	YEAR ENDED DEC 31
Revenue					
Funeral	$171,595	$151,168	$150,747	$ 157,711	$ 631,221
Cemetery	115,273	124,545	89,883	78,796	408,497
Insurance	22,868	26,210	23,257	24,181	96,516
	309,736	301,923	263,887	260,688	1,136,234
Costs and expenses					
Funeral	99,030	95,492	101,690	111,090	407,302
Cemetery	78,082	91,476	80,351	107,274	357,183
Insurance	19,244	21,350	18,253	21,166	80,013
	196,356	208,318	200,294	239,530	844,498
	113,380	93,605	63,593	21,158	291,736
Expenses					
General and administrative	24,704	24,312	44,464	39,809	133,289
Depreciation and amortization	17,926	18,080	24,748	27,759	88,513
Asset impairment	—	—	—	333,900	333,900
	42,630	42,392	69,212	401,468	555,702
Earnings (loss) from operations	70,750	51,213	(5,619)	(380,310)	(263,966)
Interest on long-term debt	35,014	40,436	46,503	60,352	182,305
Investment impairment and contingent loss	—	—	—	315,207	315,207
Earnings (loss) before undernoted items	35,736	10,777	(52,122)	(755,869)	(761,478)
Dividends on preferred securities of subsidiary	1,772	1,772	1,772	1,772	7,088
Earnings (loss) before income taxes and undernoted items	33,964	9,005	(53,894)	(757,641)	(768,566)
Income taxes					
Current	18,578	(1,187)	8,440	(2,713)	23,118
Future	(11,105)	2,942	(28,313)	(151,113)	(187,589)
	7,473	1,755	(19,873)	(153,826)	(164,471)
	26,491	7,250	(34,021)	(603,815)	(604,095)
Equity and other earnings of associated companies	3,548	2,992	1,583	(2,997)	5,126
Net earnings (loss) for the year	$ 30,039	$ 10,242	$ (32,438)	$(606,812)	$(598,969)
Basic earnings (loss) per Common share	$ 0.38	$ 0.11	$ (0.47)	$ (8.22)	$ (8.22)
Fully diluted earnings (loss) per Common share	$ 0.37	$ 0.11	$ (0.47)	$ (8.22)	$ (8.22)

CONSOLIDATED STATEMENTS OF OPERATIONS - RESTATED

Expressed in thousands of U.S. dollars except per share amounts

1997	FISCAL QUARTERS ENDED (UNAUDITED) MARCH 31	JUNE 30	SEPT 30	DEC 31	YEAR ENDED DEC 31
Revenue					
Funeral	$155,543	$146,567	$140,400	$159,602	$ 602,112
Cemetery	97,435	106,980	109,559	108,036	422,010
Insurance	21,719	22,101	24,177	21,980	89,977
	274,697	275,648	274,136	289,618	1,114,099
Costs and expenses					
Funeral	92,084	88,391	97,640	96,076	374,191
Cemetery	65,614	72,556	83,122	81,673	302,965
Insurance	17,989	17,101	20,885	17,329	73,304
	175,687	178,048	201,647	195,078	750,460
	99,010	97,600	72,489	94,540	363,639
Expenses					
General and administrative	22,683	16,488	46,187	27,408	112,766
Depreciation and amortization	15,431	15,122	15,106	19,719	65,378
Restructuring costs	—	—	36,911	(3,547)	33,364
	38,114	31,610	98,204	43,580	211,508
Earnings from operations	60,896	65,990	(25,715)	50,960	152,131
Interest on long-term debt	32,283	34,590	33,413	31,966	132,252
Loss on early extinguishment of debt	—	—	7,675	—	7,675
Gain on sale of investment	—	—	—	(24,099)	(24,099)
Earnings before undernoted items	28,613	31,400	(66,803)	43,093	36,303
Dividends on preferred securities of subsidiary	1,772	1,772	1,772	1,772	7,088
Earnings (loss) before income taxes and undernoted items	26,841	29,628	(68,575)	41,321	29,215
Income taxes					
Current	11,674	10,390	(29,510)	41,598	34,152
Future	(5,843)	(4,210)	3,863	(27,177)	(33,367)
	5,831	6,180	(25,647)	14,421	785
	21,010	23,448	(42,928)	26,900	28,430
Equity and other earnings of associated companies	3,157	3,718	2,599	3,906	13,380
Net earnings (loss) for the year	$ 24,167	$ 27,166	$ (40,329)	$ 30,806	$ 41,810
Basic earnings (loss) per Common share	$ 0.37	$ 0.39	$ (0.58)	$ 0.39	$ 0.48
Fully diluted earnings (loss) per Common share	$ 0.36	$ 0.39	$ (0.58)	$ 0.38	$ 0.48

INVESTOR INFORMATION

Publicly traded securities of The Loewen Group include Common shares and First Preferred Shares Series C and Monthly Income Preferred Securities (MIPS) of Loewen Group Capital, L.P.

COMMON SHARES The Common shares of The Loewen Group Inc. are listed for trading under the symbol LWN on The New York Stock Exchange, The Toronto Stock Exchange and The Montreal Exchange. Prior to October 2, 1996 the Common shares of The Loewen Group Inc. were quoted on The Nasdaq National Market under the symbol LWNG.

	TSE (Cdn $)				NYSE			
	1998		1997		1998		1997	
Calendar Quarter	High	Low	High	Low	High	Low	High	Low
Quarter 1	38.750	30.150	56.750	47.350	27.500	20.875	41.375	31.000
Quarter 2	41.450	35.000	45.000	30.900	28.813	24.625	34.875	27.500
Quarter 3	39.800	17.000	49.500	34.250	26.875	11.063	35.750	24.750
Quarter 4	21.950	10.750	39.000	32.000	14.500	7.000	28.375	23.000

As of March 31, 1999 there were 2,552 record holders of the Common shares and 74,061,600 shares outstanding.

TRANSFER AGENT AND REGISTRAR: CIBC Mellon Trust Company, P.O. Box 1900, Vancouver, British Columbia V6C 3K9 1-800-387-0825.

FIRST PREFERRED SHARES SERIES C The First Preferred Shares Series C have a par value of Cdn. $25.00 and are listed for trading on The Toronto Stock Exchange and The Montreal Exchange under the symbol LWN.PR.C.

	TSE (Cdn $)			
	1998		1997	
Calendar Quarter	High	Low	High	Low
Quarter 1	29.000	25.500	38.250	32.500
Quarter 2	30.450	27.050	37.000	29.000
Quarter 3	29.150	19.500	36.950	28.000
Quarter 4	22.750	14.500	32.500	26.000

A quarterly dividend of Cdn. $0.375 per share is payable on the last day of each quarter.*

TRANSFER AGENT AND REGISTRAR: CIBC Mellon Trust Company, P.O. Box 1900, Vancouver, British Columbia V6C 3K9 1-800-387-0825.

MONTHLY INCOME PREFERRED SECURITIES The MIPS of Loewen Group Capital, L.P. (an affiliate of The Loewen Group Inc.) have a par value of $25.00 and are listed for trading on The New York Stock Exchange under the symbol LWNPR.

A monthly dividend of $0.1969 per security is payable on the last day of each month.* Investors receive a Schedule K-1 representing the investor's proportionate share of the interest income of Loewen Group Capital, L.P.

TRANSFER AGENT: Chase Mellon Shareholder Services, Four Station Square, Third Floor, Pittsburgh, Pennsylvania 15219-1173.

*In March 1999, the Company deferred payment of all further dividends, including those on the Company's Common shares and First Preferred Shares, Series C and those dividends on the Monthly Income Preferred Securities of Loewen Group Capital L.P., an affiliate of the Company.

THE LOEWEN GROUP INC. DIRECTORS	YEAR JOINED BOARD OF DIRECTORS
John S. Lacey [2,4] *Chairman of the Board* *The Loewen Group Inc.*	December 1998
Charles B. Loewen [1,3,4] *President, Corporate Services International Inc.*	May 1990
Robert B. Lundgren *President and Chief Executive Officer,* *The Loewen Group Inc.*	June 1986
James D. McLennan [1,3,4] *President, McLennan Company*	June 1993
William R. Riedl [2,4] *President and Chief Executive Officer,* *Fairvest Securities Corp.*	December 1998
Thomas M. Taylor [1,3] *President, Thomas M. Taylor & Co.*	December 1998
The Right Honourable John N. Turner, P.C., C.C., Q.C.[1,2,4] *Partner, Miller Thomson Barristers & Solicitors*	June 1992

[1] Audit Committee
[2] Corporate Governance Committee
[3] Compensation Committee
[4] Special Committee

CORPORATE MANAGEMENT

Robert B. Lundgren
President and Chief Executive Officer

Paul Wagler
Executive Vice-President and Chief Operating Officer

Michael G. Weedon
Executive Vice-President and Chief Administrative Officer

Timothy R. Hogenkamp
Executive Vice-President, Corporate Affairs

Alan R. Thomas, C.A.
Acting Chief Financial Officer

Jeffrey L. Cashner
Senior Vice-President, Funeral Home & Cemetery Operations

Dwight K. Hawes
Senior Vice-President, Corporate Controller

Bradley D. Stam
Senior Vice-President, Law

Peter S. Hyndman
Corporate Secretary

Ron L. Costigan
Vice-President, Credit & Acceptance

Donald F. Delaney
Vice-President, Corporate Controller

Philip A. Falls
Vice-President, Investment Management

Andrew J. Gauntley
Vice-President, Operations

Guy Heywood
Vice-President, Treasurer

Brent W. Karila
Vice-President, Operations Controller

Charles D. Kizina
Vice-President, Personnel Administration, Environmental & Safety

Dan Nakagawa
Vice-President and Chief Compliance Officer

Anwar Nathu
Vice-President, Management Information Systems

Craig Nelke
Vice-President, Construction & Development

Doug Routley
Vice-President, Accounting & Administration

Roger C. Ryan
Vice-President, Taxation

Aaron Shipper
Vice-President, Marketing

William G. Stewart
Vice-President, Corporate Development and International

REGIONAL MANAGEMENT / OPERATIONS

George M. Amato
Regional Vice-President, Funeral Home Division, Eastern Region

F. Duane Schaefer
Regional Vice-President, Funeral Home Division, Western Region

Thomas C. Hardy
President, Loewen Life Insurance Group Inc.

Nicholas C. Aylwin
Director, United Kingdom

Harry C. B. Rath
Regional Vice-President, Funeral Home Division, Eastern Canada

Peter A. Wiesner
Regional Vice-President, Funeral Home Division, Western Canada

Peter B. Gray
Vice-President & Controller, Cemetery Operations

Joseph T. Hardiman
Vice-President & Controller, Funeral Home & Cemetery Operations

Marc Bluestein
Regional Vice-President, Cemetery Division, Southern Region

Ronald P. Robertson
Regional Vice-President, Cemetery Division, North Eastern Region

Harold Saunders
Regional Vice-President, Cemetery Division, Western Region

CORPORATE OFFICE

The Loewen Group Inc.
4126 Norland Avenue
Burnaby, British Columbia
Canada V5G 3S8

CORPORATE INFORMATION

Corporate publications including annual reports, quarterly reports, information circulars/proxy statements are available at:

1-800-347-7010
Web Site: www.loewengroup.com

AUDITORS

KPMG, LLP
Vancouver, British Columbia

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